

# Wisconsin Energy Corporation

9400-YO-100

## Transcript of Proceedings

Volume 4

## Technical Session

March 11, 2015

**ORIGINAL**



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BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

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APPLICATION OF WISCONSIN ENERGY	)	
CORPORATION FOR APPROVAL TO	)	Docket No.
ACQUIRE THE OUTSTANDING COMMON	)	
STOCK OF INTEGRYS ENERGY GROUP,	)	9400-YO-100
INC.	)	

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EXAMINER MICHAEL NEWMARK, PRESIDING

TRANSCRIPT OF PROCEEDINGS

TECHNICAL SESSION

VOLUME 4

**ORIGINAL**

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HEARING HELD:

March 11, 2015

Public Service Commission

Madison, Wisconsin

9:30 a.m.

TRANSCRIPT PAGES:

1 - 24, 46 - 81,  
97 - 209, Incl.

EXHIBITS:

Leverett 1, Reed 11,  
Reed 12, Hahn 9, Lauber  
15, Huber 3, Huber 4,  
Huber 5

## A P P E A R A N C E S

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Justin Chasco, Counsel

Lois Hubert

(FOR INDEX SEE BACK OF TRANSCRIPT.)



1 TRANSCRIPT OF PROCEEDINGS

2 EXAMINER NEWMARK: So welcome everybody  
3 this. Is the WEC acquisition case of Integrys, and  
4 that's the party hearing session. We've done a  
5 number of public hearings weeks prior, but this is  
6 time for the parties. And we have the filings  
7 already made for testimony and exhibits, so we can  
8 get started.

9 Just preliminary items. First thing we  
10 usually do is just make sure that the list that I  
11 sent out is correct. I know there's one correction  
12 we need to make. Was with it Lauber's supplemental  
13 direct? I think I put the wrong number on there, so  
14 we have the updated version. I've made that  
15 correction on my version so far.

16 So any other corrections to the list?

17 MR. WILSON: There's one other correction  
18 to an exhibit of Mr. Lauber. A revised Exhibit 3  
19 was filed, I believe it was yesterday.

20 EXAMINER NEWMARK: Yes. Okay. I have  
21 that. And also the errata that was filed yesterday.

22 MR. WILSON: Correct.

23 EXAMINER NEWMARK: I noted that. Anything  
24 else?

25 (No response.)

1                   So -- okay. So another -- let's -- I  
2                   guess probably the -- let's -- first thing we should  
3                   get out of the way is our motion for -- discovery  
4                   motion for protective order. I know the applicant  
5                   had filed that motion to protect the discovery that  
6                   was submitted by WIEG, and I think they were going  
7                   to make a statement on the record about that. So go  
8                   ahead.

9                   MR. WILSON: WEC and WIEG have resolved  
10                  that issue that the general outlines of the  
11                  resolution are that WEC will serve responses or  
12                  objections to the discovery by March 19th. WEC will  
13                  not object to entry of those responses and  
14                  objections as a delayed exhibit in the record.

15                  WIEG is agreeing that the discovery itself  
16                  and WEC's objections or responses to that discovery  
17                  should not be the basis for any amendment or  
18                  extension of the schedule in the case.

19                  And further, WEC is not waiving the  
20                  objections it raised to the discovery with the  
21                  exception -- with the exception of the objection  
22                  that the discovery was intended to be harassing,  
23                  that objection is waived, but we are reserving the  
24                  rest of our objections.

25                  EXAMINER NEWMARK: Okay.

1 MR. WILSON: With that noted, we intend to  
2 respond to the -- to the -- to the requests to admit  
3 that we can and object otherwise.

4 EXAMINER NEWMARK: Okay. So I know the  
5 first two items I believe were requests for  
6 production of documents. Is that part of your  
7 response, or is that agreed that you're not  
8 producing documents, just doing the admissions or  
9 denials?

10 MR. WILSON: I believe we agreed that we  
11 are not producing documents.

12 MR. HEINZEN: Yeah, we would not  
13 anticipate any documents being part -- we would not  
14 be requesting to introduce more documents into the  
15 record, so it would be just the denials or  
16 admissions.

17 EXAMINER NEWMARK: Okay. All right.

18 MR. HEINZEN: And I guess the one thing,  
19 what witness can we have the responses come in  
20 through? I would think it should be one of your  
21 witnesses, but we can do it any way that we all  
22 would like.

23 MR. WILSON: It can become a delayed  
24 exhibit to Mr. Lauber as well.

25 MR. HEINZEN: Okay.

1 EXAMINER NEWMARK: And so will Wisconsin  
2 Energy be filing that as the exhibit or passing it  
3 off to WIEG first?

4 MR. WILSON: We'll give it to WIEG, and it  
5 will be up to them whether they want to enter it  
6 into the record or not.

7 EXAMINER NEWMARK: Okay. All right.  
8 That's fine. All right.

9 MR. HEINZEN: Do we have a number right  
10 now for that, or do we want to do that at the end of  
11 the hearing?

12 EXAMINER NEWMARK: You can just make it  
13 the last one.

14 MR. HEINZEN: Okay.

15 EXAMINER NEWMARK: If there's more on the  
16 list by the time we're done, just make it the next  
17 number when you're filing.

18 MR. HEINZEN: Okay.

19 EXAMINER NEWMARK: We can go off the  
20 record for the next part of this.

21 (Discussion held off the record.)

22 EXAMINER NEWMARK: So we have -- sorry.  
23 So we've reviewed the offered evidence list, and we  
24 have accepted the documents listed there.

25 MS. LOEHR: Your Honor, we have may have

1 an objection to Mr. Reed's surrebuttal, but it's  
2 going to depend on answered questions.

3 EXAMINER NEWMARK: We'll hold that one in  
4 abeyance. So all other documents I think are  
5 accepted in the record with corrections that we  
6 identified off the record, and I will incorporate  
7 them in the new -- the new list.

8 So you said it was Reed, right?

9 MS. LOEHR: Yes.

10 EXAMINER NEWMARK: All right. I don't  
11 think there's anything else preliminary to do.  
12 Anyone have any outstanding matters? This can't be  
13 this easy. We're missing something.

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1 EXAMINER NEWMARK: All right. Well, I  
2 guess we'll take our first witness. Let's get right  
3 to it.

4 MR. WILSON: Mr. Leverett.

5 ALLEN L. LEVERETT, WEC WITNESS, DULY SWORN

6 EXAMINER NEWMARK: Okay. Go ahead.

7 DIRECT EXAMINATION

8 BY MR. WILSON:

9 Q Mr. Leverett, did you prepare or cause to be prepared  
10 20 pages of rebuttal testimony and 13 pages of  
11 surrebuttal testimony?

12 A I did.

13 Q If I asked you the questions contained in that  
14 testimony today, would your answers be the same?

15 A They would.

16 Q Do you have any corrections to your testimony?

17 A I don't.

18 MR. WILSON: Your Honor, the testimony is  
19 already admitted to the record; is that correct?

20 EXAMINER NEWMARK: Yes.

21 MR. WILSON: And Mr. Leverett is available  
22 for cross-examination.

23 EXAMINER NEWMARK: Okay. I have this  
24 alphabetically, so we can go with CUB first if  
25 that's okay.

1 CROSS-EXAMINATION

2 BY MS. LOEHR:

3 Q Good morning, Mr. Leverett.

4 A Good morning.

5 Q Are you aware that CUB has served discovery requests  
6 on WEC in these proceedings?

7 A Yes, I believe so.

8 Q And are you familiar with the answers to some of  
9 these requests?

10 A Perhaps if you show them to me.

11 MS. LOEHR: Okay. Could we mark this,  
12 Your Honor?

13 EXAMINER NEWMARK: Okay. It's Leverett 1.  
14 (Exhibit Leverett 1 marked for identification.)

15 BY MS. LOEHR:

16 Q Mr. Leverett, I'm showing you what has been marked as  
17 Exhibit-WEC-Leverett-1. This is CUB's data request  
18 No. 4 CUB-interrogatory-3, and then the company's  
19 response. Do you see that?

20 A I do.

21 Q And are you familiar with this response?

22 A I've seen this -- I've seen this response.

23 Q And this -- can you describe what the response  
24 consists of?

25 A Well, this appears to be an attachment to the

1           surrebuttal testimony that I filed with the Illinois  
2           Commerce Commission.

3       Q     And does this include the list of commitments that  
4           WEC has made thus far in the Illinois Commerce  
5           Commission proceeding regarding the review of --  
6           their review of the proposed transaction?

7       A     Yes.

8       Q     And is there any update to this list you're aware of?

9       A     I'm not aware of any update.

10                   MS. LOEHR: Your Honor, I'd ask that this  
11           exhibit be accepted into the record.

12                   EXAMINER NEWMARK: Okay. Any objections?

13                   MR. WILSON: No objections.

14                   EXAMINER NEWMARK: All right. It's in.

15                   (Exhibit Leverett 1 received.)

16       BY MS. LOEHR:

17       Q     And then do you have your rebuttal and surrebuttal  
18           testimony with you?

19       A     Yes.

20       Q     Your rebuttal, pages 14 and 15, and then surrebuttal  
21           at 9 and 10 you discuss joint resource planning  
22           between WEPCO and Wisconsin Public Service  
23           Commission; is that correct?

24       A     Yes, between WEPCO and Wisconsin Public Service  
25           Corporation.



1 Q Corporation, sorry. Thanks.

2 A Right.

3 Q And Wisconsin Public Service -- you also discuss on  
4 those pages Wisconsin Public Service Corporation's  
5 proposed Fox Energy Center 3?

6 A Yes.

7 Q And that's an approximately 400-megawatt natural gas  
8 combined cycle unit that WPSC is proposing to  
9 construct?

10 A I'm aware that they're proposing to construct a  
11 combined cycle unit. I'm not sure what the exact  
12 capacity is.

13 Q Okay. And if I refer to that as Fox 3, that's what  
14 we're talking about?

15 A Uh-huh. Yes.

16 Q So I want to make sure I understand what WEC is  
17 proposing regarding joint resource planning and Fox 3  
18 in particular. So WEC agrees that WEPCO and WPSC  
19 will submit a joint resource plan based on an EGEAS  
20 modeling 120 days after closing on the acquisition?

21 A Yes, I believe that's at line 6 on page 9 of the  
22 surrebuttal.

23 Q And when does WEC plan to close on the acquisition if  
24 regulatory approvals are received?

25 A Well, what we said publicly is that we would expect

1 to go to financial closing in the second half of this  
2 year.

3 Q Second half of this year, so sometime between June  
4 and December?

5 A Well, second half would be beginning of July to end  
6 of December.

7 Q Beginning of July to end of December, okay. And the  
8 acquisition can't close before all regulatory  
9 approvals are received?

10 A It cannot close before all the conditions precedent  
11 are met in the merger agreement, and part of those  
12 are the merger approvals.

13 Q Okay. And do you know when the Illinois Commerce  
14 Commission expects to make a decision in their  
15 proceeding?

16 A I believe -- I don't know the exact date, but I  
17 believe their statutory deadline is either July 6th  
18 or July 7th.

19 Q Okay. So what's the earliest date you think the  
20 acquisition could close?

21 A I -- I really can't speculate. I don't know.

22 Q Okay. Well, we know it can't be -- well, we'll  
23 assume for the moment that it can't be before  
24 July 1st.

25 A It may very well be before July 1st. The Illinois

1 Commerce Commission doesn't have to take -- they  
2 don't have to go all the way to the end with their  
3 statutory deadline.

4 Q Okay.

5 A So they could decide earlier, I suppose.

6 Q Okay. But the company is planning for it sometime  
7 between July and December like you just said?

8 A My working assumption is second half of the year.

9 Q Okay. And 120 days from that date is about four  
10 months?

11 A Correct.

12 Q So if we assume a close in July -- well, just put it  
13 in the middle of July, July 15th, that makes  
14 November 15, 2015 for when the company would propose  
15 to submit a joint resource plan based on EGEAS  
16 results?

17 A If you assume the July 15th closing.

18 Q Okay. And sidestep for a minute. Are you aware that  
19 the Illinois Commerce Commission is considering  
20 opening an investigation with respect to Peoples Gas  
21 Accelerated Main Replacement Program?

22 A Yes.

23 Q And they're actually considering that today?

24 A I wasn't aware that they were considering that today.

25 Q Okay. Do you have any idea whether that will have

1 any impact on the Illinois Commerce Commission's  
2 schedule with respect to the acquisition?

3 A I don't.

4 Q And you said before that you knew that WPSC had filed  
5 an application to construct Fox 3 already?

6 A I think they've made their CPCN filing, yes, ma'am.

7 Q Okay. And subject to check, that were filed on -- do  
8 you have any reason to doubt that that was filed on  
9 January 21, 2015?

10 A I don't have any reason to doubt that.

11 Q Okay. And are you aware that there is a statutory  
12 deadline with respect to the consideration of CPCN,  
13 certificate of public convenience and necessity,  
14 applications?

15 A I'm aware of a statutory deadline. I don't know the  
16 details of the deadline and how it's determined.

17 Q Okay. Is it -- what do you know about the deadline?

18 A I think that once a CPCN is deemed complete, I  
19 believe the Commission has -- I don't know if it's  
20 180 days or a year, but it's somewhere in that range  
21 to -- to rule on the CPCN.

22 Q Okay. So once -- once an application has been deemed  
23 complete, which we'll represent has not yet occurred,  
24 180 days and then the possibility for another 180-day  
25 extension?

1 A I'll accept that. You know the standards.

2 Q To your knowledge, is WEC proposing to hold the Fox 3  
3 application in abeyance until WEPCO and WPSC submit  
4 their joint resource plan if the acquisition closes?

5 A No.

6 Q Do you know if WPSC is proposing to hold the Fox 3  
7 application in abeyance until the joint resource plan  
8 is submitted if the acquisition closes?

9 A No, ma'am.

10 Q Your surrebuttal on page 9, line 17 to 18, says that  
11 that joint resource plan will, quote, provide a path  
12 forward. Do you see that?

13 A Uh-huh. Line 17, yes, ma'am.

14 Q Okay. How can the EGEAS modeling provide a path  
15 forward when it might not be produced until the  
16 middle of November and you're not proposing to hold  
17 the Fox 3 application in abeyance?

18 A Well, I suppose the Commission could deem the CPCN  
19 application incomplete until we make this filing.

20 Q But you've identified that the filing, the joint  
21 resource plan filing, is going to be a path forward?

22 A Well, I think what I say here is that we would -- we  
23 would submit the joint resource plan within 120 days,  
24 and then the Commission can take that as well as the  
25 information that Wisconsin Public Service has

1 provided, and they can make a decision. So that's  
2 certainly -- that's what I mean by way forward in  
3 line 18 -- or 17 and 18.

4 Q That the way forward would be additional information  
5 for the Commission to use to make a decision in  
6 Fox 3?

7 A Yes.

8 Q And you've referenced the EGEAS results that  
9 Mr. Detmer submitted in his direct testimony as a  
10 potential benefit of joint resource planning?

11 A Yes.

12 Q And do you understand that part of that benefit  
13 relates to not constructing Fox 3?

14 A It certainly may be.

15 Q It may be or it is?

16 A I haven't done a detailed analysis of his -- of his  
17 analysis, not to be redundant.

18 Q So you don't know what makes up the potential  
19 benefits that Mr. Detmer identified?

20 A I don't know the components of the 600 million, no,  
21 ma'am.

22 Q Okay. On your surrebuttal, page 10, lines 11 through  
23 14, you state that net savings of the transaction  
24 estimated by Mr. Reed to be 3 to 5 percent of  
25 non-fuel O&M over time will be passed on to

1 ratepayers, thus ratepayers, quote, will benefit from  
2 the transaction, and the will is in emphasis. So is  
3 WEC guaranteeing benefits to customers from the  
4 transaction?

5 A No.

6 Q At no dollar amount?

7 A No.

8 Q But you state that there will be benefits?

9 A Yeah, expect there will be.

10 Q But you're not willing -- the company's not willing  
11 to guarantee any of them?

12 A No.

13 MS. LOEHR: That's all I have. Thanks.

14 EXAMINER NEWMARK: Thank you. GLU,  
15 questions?

16 MR. HEINEMANN: Yes, thank you.

17 CROSS-EXAMINATION

18 BY MR. HEINEMANN:

19 Q Richard Heinemann for Great Lakes Utilities. Good  
20 morning.

21 A Good morning.

22 Q You're familiar with our testimony obviously. You  
23 provided some comments in your testimony on some of  
24 the ATC-related conditions that we proposed, and I'd  
25 like to explore some of that with you, if you don't

1 mind. Can you refer to your rebuttal testimony  
2 first?

3 A Sure. Where would you like me to look?

4 Q Page 5. On line 20, you indicate that no owner of  
5 ATC other than GLU has raised these issues. Do you  
6 see that statement in your rebuttal?

7 A Uh-huh.

8 Q So first of all, am I correct that by issues you mean  
9 issues with respect to WEC's potential influence over  
10 ATC?

11 A Well, in this case issues meant voting restrictions  
12 if I understand your question.

13 Q But the voting restrictions have been proposed by WEC  
14 to address any concerns about WEC's exercise of  
15 influence; is that correct?

16 A Yes. Correct.

17 Q So when you say no other owner has raised these sorts  
18 of issues, do you mean to say -- or do you mean that  
19 no other owner has raised these issues in filed  
20 testimony or discovery or otherwise formally in the  
21 proceeding so far?

22 A No other owner has raised issues formally in this  
23 case.

24 Q Okay. But it's possible that -- that WEC has reached  
25 agreements or made commitments with other ATC owners



1 to address concerns outside the formal context of  
2 this proceeding, correct?

3 A Yes.

4 Q Okay. And are you aware of any such agreements or  
5 commitments?

6 MR. WILSON: I'm going to break in for a  
7 minute. I think we may be getting into areas that  
8 are -- that have been deemed attorneys' eyes only.  
9 It may be necessary to pull this portion of the  
10 proceeding in camera, unless you can give us some  
11 direction where you're going.

12 MR. HEINEMANN: Well, I'm not planning to  
13 explore the nature of any of such commitments, if  
14 they exist, in any detail. I'm just basically  
15 trying to get on the record an acknowledgment that  
16 those agreements and commitments have been made.

17 EXAMINER NEWMARK: Doesn't matter whose  
18 made them?

19 MR. HEINEMANN: Well, we're talking about  
20 other ATC owners in this context.

21 EXAMINER NEWMARK: Right. But I'm asking  
22 in terms of confidentiality, the names?

23 MR. WILSON: I think we can have that  
24 question on the record.

25 EXAMINER NEWMARK: Okay.

1 MR. WILSON: The public record.

2 EXAMINER NEWMARK: All right. Well,  
3 proceed with care.

4 MR. HEINEMANN: Can you read my question  
5 back.

6 (RECORD READ.)

7 BY MR. HEINEMANN:

8 Q Are you aware of any such agreements or commitments  
9 with other ATC owners to address their concerns which  
10 haven't been reflected in anything in the record thus  
11 far?

12 A I'm aware of other agreements, but their --  
13 addressing their concerns or their desire for  
14 clarification is in my testimony, so -- in the  
15 rebuttal testimony. So it's addressed, their need  
16 for clarification, in my rebuttal testimony.

17 Q So that would be a yes, that you're aware of the fact  
18 that -- or the existence of agreements or commitments  
19 with other ATC owners that have addressed concerns  
20 that they have raised?

21 A Yes.

22 Q And that's reflected in your rebuttal testimony?

23 A It is, the clarifications that they asked for.

24 Q And where would that be in your rebuttal testimony?

25 A Page 4 and 5.

1 Q Okay. Oh. You mean with respect to the application  
2 or implementation of the voting restriction that  
3 you've already made?

4 A Yes, sir.

5 Q That's correct. All right. I understand where  
6 you're going with that.

7 So, those clarifications with respect to  
8 how the voting restrictions would work have been  
9 made outside the formal context of this proceeding  
10 with other ATC owners? There are agreements or  
11 commitments that have been made that clarify how the  
12 voting restrictions are going to be implemented?

13 A Yes.

14 Q And those have been made with those other owners  
15 outside the context formally of this proceeding?

16 A Yeah. It sounds like the same question you asked me  
17 before.

18 MR. WILSON: I think it's asked and  
19 answered. I think that his testimony was that the  
20 clarifications are contained in his testimony, his  
21 rebuttal testimony, at pages 4 and 5.

22 EXAMINER NEWMARK: Yeah.

23 MR. HEINEMANN: Okay. Now I'm confused.

24 BY MR. HEINEMANN:

25 Q So the clarifications that we're talking about, those

1 have been made in your testimony?

2 A Yes, sir.

3 Q Okay. So other than the clarifications on the voting  
4 conditions that the company has proposed in your  
5 testimony --

6 A Uh-huh.

7 Q -- your testimony is that no other agreements have  
8 been made with ATC owners, or commitments made with  
9 ATC owners?

10 A Related to what?

11 Q Related to any concerns they might have about ATC and  
12 the influence that WEC might exercise over ATC.

13 A Well, again, I don't know if we want to go into  
14 confidential.

15 MR. HEINEMANN: Maybe we need to.

16 EXAMINER NEWMARK: If it gets us there,  
17 let's go.

18 All right. We'll go in camera. We have  
19 to split up. It's not only people that signed a  
20 confidential agreement, it goes deeper than that.  
21 It's attorneys' eyes only or certain companies?

22 MR. WILSON: Yes. We have attorneys' eyes  
23 only on this issue, so I think it's representatives  
24 of CUB, WIEG, and WEC and staff.

25 EXAMINER NEWMARK: Okay. So all others

1           need to leave.

2                       MR. HEINEMANN: No, no. We have an  
3           agreement.

4                       (Refer to confidential volume 5.)

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1 CONTINUED TRANSCRIPT OF PROCEEDINGS

2 MR. HEINEMANN: We'll mark this and put  
3 this into the record I guess as Exhibit 3.

4 EXAMINER NEWMARK: 3, yeah.

5 (Exhibit Leverett 3 received.)

6 EXAMINER NEWMARK: All right. Let's get  
7 back to cross. Mr. Heinemann, do you have any more  
8 public cross?

9 MR. HEINEMANN: Yes.

10 EXAMINER NEWMARK: Okay.

11 MR. HEINEMANN: I have several more items  
12 I'd like to talk about.

13 CONTINUED CROSS-EXAMINATION

14 BY MR. HEINEMANN:

15 Q We were looking at your rebuttal testimony. If you  
16 could turn to page 12, and on line 12 of page 12, you  
17 indicate that, quote, an owner's ability to influence  
18 ATC's planning and construction activities is  
19 limited, correct?

20 A Yes.

21 Q And you suggest something similar in your surrebuttal  
22 testimony, if I recall correctly.

23 A I'll accept that.

24 Q Okay. And you go on to suggest here that because  
25 these sorts of -- these -- that this is because these

1 sorts of activities are governed by a regional  
2 planning process at MISO, so no owner can  
3 unilaterally make ATC build something or not build  
4 something, correct?

5 A Yes.

6 Q And, Mr. Leverett, you're currently on the ATC board  
7 of directors, correct, the ATCMI Board of Directors?

8 A Yes.

9 Q And from your experience on the board, does the board  
10 have a role in the planning process?

11 A No.

12 Q Does the board -- does ATC develop a -- what's called  
13 a 10-year plan for transmission projects and  
14 construction?

15 A Yes.

16 Q And that plan includes regional projects, large  
17 regional projects, as well as smaller, more localized  
18 projects, correct?

19 A They certainly could, I believe.

20 Q And does the board have an opportunity to review or  
21 approve that 10-year plan?

22 A I don't believe so. Not approve it, no, the 10-year  
23 plan.

24 Q Would you agree with the proposition that the vast  
25 majority of actions on behalf of ATC require board

1 authorization?

2 A I don't know.

3 Q Would you -- would you agree with the proposition  
4 that the actions that do require board authorization  
5 include power over the property and affairs and  
6 business of the company?

7 A That's very vague.

8 Q Okay.

9 A If you could ask me specifically, I could try to  
10 address with you.

11 MR. HEINEMANN: Okay. May I approach?

12 EXAMINER NEWMARK: Sure.

13 MR. HEINEMANN: I'm about to show the  
14 response that ATC made to some of staff's data  
15 requests with respect to the role of the board of  
16 directors.

17 EXAMINER NEWMARK: Do you want to mark  
18 this?

19 MR. HEINEMANN: Yeah, why don't we mark  
20 this one.

21 EXAMINER NEWMARK: Okay. So this would be  
22 Leverett -- I'm missing a number here. Leverett 4 I  
23 believe.

24 (Exhibit Leverett 4 marked for identification.)

25 EXAMINER NEWMARK: And let me ask you,



1 this is just one filing?

2 MR. HEINEMANN: Excuse me?

3 EXAMINER NEWMARK: This is one filing, or  
4 did you compile documents?

5 MR. HEINEMANN: My understanding, and I  
6 did not file these, ATC did, is that these are all  
7 filed under the same PSC reference number.

8 EXAMINER NEWMARK: Okay. Let me just ask  
9 staff, was staff intending to file this already  
10 or --

11 MR. CHASCO: Not this data request.

12 EXAMINER NEWMARK: Not this one, okay. So  
13 we'll make that Leverett 4.

14 BY MR. HEINEMANN:

15 Q Okay. And returning to the questions I was asking a  
16 moment ago, basically I was just tracking the  
17 response that ATC made to data request 2.04. So if  
18 you look at that response.

19 A Uh-huh.

20 Q In paragraph A, the indication here is that the board  
21 has power -- well, starting from the beginning,  
22 following the conversion of Class B shares into Class  
23 A shares, the vast majority of actions on behalf of  
24 the company require board authorization. The board  
25 has power over the property, affairs, and business of

1 the company pursuant to Section 3.1 of the ATCMI  
2 bylaws. These powers are interpreted to include  
3 internal project approval, acquisitions, and project  
4 development. So is it your position that -- do you  
5 agree with that statement, those statements, as an  
6 ATC board member?

7 A If you refer specifically to -- this is 2.04(a)?

8 Q Correct.

9 A Oh. I didn't provide this response, but I would  
10 assume if the folks at ATC provided this to you, it's  
11 an accurate description.

12 Q And it's a description of the board's authority?

13 A Well, like I said, I imagine ATC would give you good  
14 information, so I'll agree with it.

15 Q And I'm asking because you're on the board of  
16 directors.

17 A Yeah. I agree with this, yeah.

18 EXAMINER NEWMARK: Okay. So did we only  
19 need the response?

20 MR. HEINEMANN: We only needed 2.04.

21 EXAMINER NEWMARK: So if you just file  
22 that, those two pages.

23 MR. WILSON: Your Honor, I don't think the  
24 proper foundation has been laid for this document.  
25 Mr. Leverett testified that he did not prepare it,

1 he did not say it was prepared on behalf of ATC's  
2 board of directors on which he sits, and I don't  
3 know that he can necessarily sponsor it.

4 EXAMINER NEWMARK: Okay. Well, he agreed  
5 to it, so it's not necessary we have the document.  
6 It's been submitted by ATC, but if there's doubt --  
7 I mean, the answer I think in the record is  
8 legitimate.

9 MR. HEINEMANN: Is your response that it  
10 shouldn't be sponsored by him but somebody else, the  
11 exhibit?

12 MR. WILSON: Well, I just don't know that  
13 you've laid proper foundation for the document.

14 EXAMINER NEWMARK: Uh-huh.

15 MR. WILSON: He didn't prepare it, but to  
16 the extent it's being admitted to ask him just  
17 whether he agrees with the statements in this  
18 paragraph (a), then so be it.

19 EXAMINER NEWMARK: Uh-huh.

20 MR. WILSON: But we may just want to limit  
21 it to that paragraph.

22 MR. HEINEMANN: That's fine.

23 MR. WILSON: At least just to 2.04.

24 EXAMINER NEWMARK: I mean, you read it and  
25 he agreed to it, so we probably don't need the

1 document necessarily.

2 MR. HEINEMANN: That's fine.

3 MR. WILSON: So strike the exhibit?

4 EXAMINER NEWMARK: Right. Okay.

5 (Exhibit Leverett 4 struck from record.)

6 BY MR. HEINEMANN:

7 Q Please look at your surrebuttal for just a minute. I  
8 have a couple more items I want to touch on. If you  
9 look on page 3, you're responding to a question about  
10 some of the problems that you see with a few of the  
11 conditions that both Great Lakes Utilities and PSCW  
12 staff have proposed in this proceeding. Do you see  
13 that discussion?

14 A You're at line 16?

15 Q I'm at line 14, 16, yes. 14 and following, yes.

16 A Okay. Yes. Uh-huh.

17 Q And the first of the problems that you identified is  
18 that by seeking a board seat or enhanced voting  
19 power, GLU in this case, Great Lakes Utilities, would  
20 be seeking to have influence that is disproportionate  
21 to its ownership interest in ATC; is that correct?

22 A Yes.

23 Q And let me ask you, are you -- are you familiar with  
24 the provisions in ATC's bylaws that lay out the  
25 process for how nominations to the board are handled?

1 A Generally, yes.

2 MR. HEINEMANN: Okay. And I will note for  
3 the record that there's been some confusion over  
4 which bylaws actually are currently in effect, and I  
5 think that's been cleared up. And my understanding  
6 is that's going to be submitted as an exhibit to the  
7 record.

8 BY MR. HEINEMANN:

9 Q But you just testified that you're generally aware?

10 A Yes, sir.

11 Q Can you describe how the process works in terms of  
12 nominating board seats generally?

13 A Yeah. Generally?

14 Q Yes.

15 A So, I believe there's a nominating -- so-called NBA  
16 committee, so nominating and board affairs I think is  
17 the name of the committee. I believe that's a  
18 committee that's named in the bylaws. I think it has  
19 to have at least three members. One of them has to  
20 be an independent director, perhaps there could be  
21 more than three, but I think there has to be at least  
22 three members of the committee. So essentially, and  
23 I'm not an attorney so I'm probably going to  
24 oversimplify the process, so the NBA committee  
25 considers a slate of directors, and then the

1 committee has to agree on a slate of directors, and  
2 then that slate of directors would be, my words,  
3 presented to the shareholders for a vote at the  
4 annual meeting.

5 I think there's an alternative mechanism  
6 that if you have -- I believe the way it's written,  
7 if you have one shareholder or a group of  
8 shareholders that represent more than 3 percent of  
9 the ownership of the company, they can in effect  
10 propose alternatives to the slate that the -- that  
11 the NBA committee recommends.

12 Q Okay.

13 A And then I think the annual meeting's in June, so the  
14 slates are there and you have an annual meeting, and  
15 the shareholders vote, and that's generally the  
16 process.

17 Q Okay. So there's no requirement in your  
18 understanding of this process that a board  
19 representative be from a large shareholder other than  
20 meeting the qualifications of the 3 percent  
21 alternative that you just laid out?

22 A The shareholders as a group elect the directors.

23 Q But there's no requirement that the directors they  
24 elect be from a large ATC owner?

25 A Well, my understanding is other than the statutory

1 requirement that there be four independent  
2 directors --

3 Q Okay.

4 A -- and there's a definition of what independent  
5 means, there are no requirements or restrictions.

6 Q Okay. And how many seats are provided for in the  
7 bylaws on the board?

8 MR. WILSON: Do you perhaps want to put  
9 the bylaws in front of him if you're going to ask  
10 him questions about them.

11 MR. HEINEMANN: I don't have many more  
12 questions. So if you need me to show you the bylaws  
13 to answer that question, let me know.

14 THE WITNESS: I believe the bylaws  
15 currently provide for 11 directors.

16 MR. HEINEMANN: That's my understanding.

17 THE WITNESS: And the statute --

18 MR. HEINEMANN: Go ahead.

19 THE WITNESS: But the statute limits it  
20 from five to 14, and the statute also always  
21 requires there has to be four independent directors,  
22 at least four.

23 MR. HEINEMANN: It sounds like he has  
24 sufficient understanding of the bylaws.

25 BY MR. HEINEMANN:

1 Q And how many of the seats of that 11 are currently  
2 occupied?

3 A Let's see. 10.

4 Q Okay. So there's an open seat currently, correct?

5 A The bylaws would allow there to be another director  
6 elected.

7 Q Now with respect to this question about the seat on  
8 the ATC board, just made reference to the statute,  
9 and in fact your surrebuttal testimony also discusses  
10 the statute, correct?

11 A Yes, sir.

12 Q Okay. And there's a provision in the statute that  
13 says non-transmission utility security owners, that  
14 is a group owning 10 percent or more of ATC's voting  
15 securities, were entitled to an ATC board seat as  
16 long as it's within a certain time frame, correct?

17 A I believe that was for the first 10 years of the  
18 company's existence.

19 Q Okay. And is it your understanding that that section  
20 would have applied to Great Lakes Utilities, for  
21 example, during that 10-year window --

22 A I don't --

23 Q -- assuming that GLU had a large enough voting  
24 interest?

25 A I -- yes.



1 Q Okay. But it wouldn't apply if it didn't have a  
2 10 percent voting interest?

3 A Yes.

4 Q Are there any other applicable restrictions in the  
5 statutes with respect to what entities are entitled  
6 to a board seat?

7 A I don't --

8 MR. WILSON: Objection. That asks for a  
9 legal conclusion.

10 BY MR. HEINEMANN:

11 Q Well, you've testified that your understanding is  
12 that the statute requires that there be a certain  
13 number of independent directors, correct?

14 A Yes.

15 EXAMINER NEWMARK: He can answer.

16 MR. WILSON: I have no objection to asking  
17 about his understanding of the statutes. I have an  
18 objection to asking for interpretation of the  
19 statute.

20 MR. HEINEMANN: Understood.

21 THE WITNESS: Could you repeat the  
22 question?

23 BY MR. HEINEMANN:

24 Q So to your understanding, does the statute require  
25 that there be a certain number of independent

1 directors on the ATC board?

2 A Yes.

3 Q Are there any other statutory restrictions that  
4 you're aware of with respect to who can occupy a  
5 board seat?

6 A I don't know.

7 Q Okay. And let me ask you this question. Is it your  
8 position that WEC is entitled to a seat on the ATC  
9 board?

10 A I don't -- I don't think anyone's entitled to a seat  
11 on the ATC board.

12 Q You also identify a second concern that you have with  
13 respect to the voting or, excuse me, the board and  
14 voting trust conditions that we proposed.

15 A Could you take me there.

16 Q I will be happy to do that. On page 4 you talk  
17 about --

18 A So we're 4 of which one?

19 Q Surrebuttal.

20 A Okay.

21 Q Lines 5 and following. You indicate a second major  
22 concern with these conditions is that they would  
23 fundamentally change the way ATC is managed and that  
24 they would give GLU out-sized influence, correct?

25 A Yes.

1 Q Would you agree that if GLU were somehow granted a  
2 seat on the board as a consequence of this  
3 proceeding, that it would increase the diversity of  
4 ownership represented on the board?

5 A I don't know.

6 Q GLU's not an investor-owned utility, is it?

7 A I don't know.

8 Q Okay. I just have a couple other points. Looking at  
9 just a little bit further in your surrebuttal  
10 testimony, pages 4 and 5, you indicate that the  
11 company would accept a condition requiring Commission  
12 approval for any sale or -- of all or a portion of  
13 WEC's interest in ATC, correct?

14 A So we're clear, so we're on page 5 at line 20?

15 Q Correct.

16 A Okay. So could you repeat your question?

17 Q Sure. Just confirming that your testimony in your  
18 surrebuttal is that the company would be willing to  
19 accept a condition that would require Commission  
20 approval for any sale of all or a part of WEC's  
21 interest in ATC that would result in a different  
22 company I'm just confirming that we're on the same  
23 page here.

24 A Yeah. And let me -- so shall I just start at  
25 line 23?

1 Q Yes.

2 EXAMINER NEWMARK: Well, no. You were  
3 asked if you were asked these questions, would you  
4 answer the same?

5 MR. HEINEMANN: Essentially.

6 THE WITNESS: Right.

7 BY MR. HEINEMANN:

8 Q That's your position?

9 A Right.

10 Q Okay. Fair enough. Let me ask you about a different  
11 scenario along those lines. If WEC were to seek to  
12 acquire all or a portion of another ATC owner's  
13 interest in ATC -- first of all, is there anything to  
14 your knowledge that would prevent that from  
15 happening, anything in the operating agreements or  
16 otherwise that would prevent WEC from --

17 A From.

18 Q -- from proposing to purchase at some value another  
19 ATC owner's share of its interest in ATC?

20 A There's some restrictions in the operating agreement  
21 related to the amount of owner interest that could  
22 change hands within -- I think it's a calendar  
23 period.

24 Q Okay.

25 A So there would be some restrictions around that, but

1 other than that, I'm not aware of any.

2 Q Okay. Would the company be willing to make some sort  
3 of a commitment not to seek such a purchase of ATC  
4 shares from another ATC owner?

5 A I haven't considered it before, but, I mean, propose  
6 a condition, we could certainly consider it.

7 Q Would the company be willing to, just along the lines  
8 of the commitment that was taken here in the  
9 surrebuttal, whether if it decides to make such a  
10 request or a purchase offer, would the company be  
11 willing to seek Commission, PSCW Commission, approval  
12 for such a purchase?

13 A So let me just restate it.

14 Q Yep. Understood.

15 A So I just want to make sure we're clear. So if we  
16 had a scenario where my company was looking at  
17 purchasing additional member interests --

18 Q Right.

19 A -- in ATC. So purchasing additional member interest  
20 from another owner?

21 Q Right.

22 A And so what would we be seeking again?

23 Q Would you be willing to make a commitment not to do  
24 that, or in the event that you did do that, having  
25 not made such a commitment, would you be willing to

1 seek Commission approval for such a purchase?

2 A We'd certainly consider it.

3 Q Okay. You'll be glad to know I only have one other  
4 question.

5 A This is the last one?

6 Q Yes. This one hopefully will be simple. Your  
7 testimony, and also testimony from other witnesses,  
8 indicates that the voting restrictions WEC has  
9 offered are sufficient, correct?

10 A I believe they are.

11 Q Okay. And you've also indicated -- or the company's  
12 also indicated that it would agree to the voting  
13 conditions that it has proposed --

14 A Uh-huh.

15 Q -- to be included in the Commission order approving  
16 this transaction, correct?

17 A Yes.

18 Q Okay. Would you have any objection to a condition  
19 that would require WEC's voting condition to be  
20 implemented through either a shareholder agreement or  
21 an amendment to ATC's existing governing documents  
22 that would be subject to regulatory approval as well  
23 as the approval of the shareholders? This is just  
24 for clarification. This is something that Witness  
25 Kothari suggested in his rebuttal testimony but you

1 did not respond to it in your surrebuttal testimony,  
2 so I'm just asking about that.

3 A Well, we would certainly be willing to take the same  
4 commitments that were outlined in my testimony and  
5 ask that those commitments be put in the operating  
6 agreement. Now, I don't believe we can unilaterally  
7 put anything in the operating agreement first, and I  
8 believe the operating agreement is a  
9 jurisdictional -- you know, this Commission has  
10 jurisdiction. So I can't commit to put it in, sir,  
11 if that's what you're asking me, but I certainly  
12 wouldn't have any objection if it were put into the  
13 operating agreement, and I wouldn't have any  
14 objection.

15 Q I think just for clarification, what GLU's witness  
16 was suggesting, and I think concerns have also been  
17 raised in other testimony, really have to do with how  
18 the voting restriction that WEC has offered are going  
19 to be implemented.

20 A Uh-huh.

21 Q And so we understand that one way that it's going to  
22 be implemented is that it's going to be included as  
23 an order as part of this proceeding. So the question  
24 is, how is it memorialized, either in the context of  
25 a shareholder's agreement or a revision to the

1 operating agreement?

2 A Well, my expectation is, regardless of whether these  
3 commitments are in the operating agreement, you know,  
4 if they're included in the FERC order, and I can't  
5 speak for the FERC, but I certainly expect they would  
6 include those in their order, and I can't speak for  
7 the Public Service Commission of Wisconsin, but I'd  
8 certainly think they'd include those commitments in  
9 their order. I would view then those commitments as  
10 being binding on us regardless of what's put in the  
11 operating agreement.

12 MR. HEINEMANN: Okay. That's all.

13 EXAMINER NEWMARK: All right. I think the  
14 IUOE had questions?

15 MS. CRAWFORD: Yes. We had some  
16 questions.

17 CROSS-EXAMINATION

18 BY MS. CRAWFORD:

19 Q Good morning, Mr. Leverett.

20 A Good morning.

21 Q My name is Susan Crawford representing the Local 420  
22 in this proceeding. I have some questions for you  
23 about workforce planning, and I want to make sure we  
24 have an understanding of that term. Would you agree  
25 that workforce planning is planning to align the



1 workforce with the organization's business plans?

2 A Yes.

3 Q Okay. And can workforce planning include projecting  
4 retirements and also attrition in the workforce?

5 A It could.

6 Q Can it include planning to expand or reduce the  
7 workforce to meet the company's business needs?

8 A It could.

9 Q Could it include plans related to recruitment and  
10 training of new employees?

11 A It could.

12 Q Okay. Could it also include plans to fill vacant  
13 positions or to eliminate those positions?

14 A It could.

15 Q Okay. Does the company intend to -- or let me back  
16 up.

17 Does the company engage in or has it  
18 engaged in workforce planning?

19 A Can you -- what do you mean by engaged in? I guess  
20 could you clarify?

21 Q Conducting. Does it conduct or has it conducted  
22 workforce planning?

23 A Yes.

24 Q Okay. And does the company intend to conduct  
25 workforce planning after the acquisition of Integrys,

1 assuming that that acquisition is approved by the  
2 Commission?

3 A Well, we would engage in workforce planning  
4 regardless of whether this acquisition is approved.

5 Q Okay. And if the acquisition is approved, would some  
6 of that workforce planning involve looking at the  
7 workforce over the scope of the combined new  
8 organization, including the Integrys employees?

9 A It might, but I haven't developed a template for a  
10 workforce plan after the two companies -- you know,  
11 the merger is approved.

12 Q Okay. Does -- so at this point, do you know when WEC  
13 would do workforce planning after the -- after  
14 Integrys is acquired?

15 A No.

16 Q Okay. In your testimony you indicated that WEC has a  
17 positive relationship with Local 420 and the other  
18 unions; is that right?

19 A That's certainly my opinion.

20 Q Okay. Do you and other WEC executives periodically  
21 meet with the union leadership?

22 A Yes.

23 Q You personally are involved in such meetings?

24 A I personally have been involved in meetings with  
25 union leadership.

1 Q Okay. And do you and other WEC executives meet with  
2 the union leadership when the company is planning  
3 major changes that will affect its employees?

4 A I generally make the unions aware of the decisions  
5 that I make or our executive team makes about  
6 workforce.

7 Q Okay. When you have those meetings, do you allow  
8 union leaders to ask questions about those plans?

9 A Yes.

10 Q Do you allow them to provide feedback on the plans?

11 A Yes.

12 Q Do you allow them to make suggestions for  
13 modifications or other input to the plans?

14 A Yes.

15 Q But the company is not bound by those suggestions; is  
16 that correct?

17 A That's management's responsibility.

18 Q Right. So this is not collective bargaining that  
19 we're talking about, right?

20 A I don't believe you're describing a collective  
21 bargaining process, no, ma'am.

22 Q Right. Now assuming that the acquisition is approved  
23 by the Commission, do you anticipate that WEC will  
24 meet with union leadership to notify them of any  
25 planned changes in the workforce?

1       A     I don't expect to change the relationship we have  
2             with the unions. You know, if you compare the  
3             relationship we have with the unions and union  
4             leadership today, if this transaction closes, I don't  
5             expect our relationship to change.

6       Q     So that means you would continue to have meetings  
7             with the leadership when changes affecting the  
8             workers are anticipated?

9       A     I would expect that we would.

10      Q     That you would?

11      A     I would expect that we would.

12      Q     Okay. And when you have those meetings, would you  
13             continue to allow the union leadership to ask  
14             questions about the plans?

15      A     If I have those meetings, I would certainly be  
16             willing to let them ask questions.

17      Q     And would you allow the union leadership to provide  
18             feedback or input into the plans that --

19      A     Yes.

20      Q     -- you're discussing?

21                 Okay. And you don't have any plans to  
22             fundamentally change the relationship with the union  
23             leadership to not engage in that kind of  
24             give-and-take conversation?

25      A     I do not.

1 MS. CRAWFORD: Okay. Thank you. That's  
2 all the questions I have, Mr. Leverett.

3 EXAMINER NEWMARK: Okay. Couple more?  
4 WIEG, questions?

5 MR. HEINZEN: Sure. Thank you.

6 CROSS-EXAMINATION

7 BY MR. HEINZEN:

8 Q Mr. Leverett, I just have a couple questions to make  
9 sure I understand the joint electric resource  
10 planning that's discussed in your testimony, and I  
11 just want to make, I guess, this clarification. Is  
12 it the -- is the joint electric resource planning  
13 from WEC's perspective to consider the combined load  
14 of both WEPCO and Pub Service plus 14 and a half  
15 percent reserve margin on that total of the two  
16 utilities and determine what resources are necessary  
17 to serve that; or, and I'll give you the alternative,  
18 is it the case that the joint electric resource  
19 planning would take Pub Service's load plus the 14  
20 and a half percent reserve margin and WEPCO's load  
21 plus the 14 and a half percent reserve margin and  
22 then determine what generation would be needed to  
23 serve those two independent customer groups?

24 MR. WILSON: Objection. Compound.

25 MR. HEINZEN: Well, I can go back to the

1 first question then.

2 EXAMINER NEWMARK: Okay.

3 BY MR. HEINZEN:

4 Q So is it the case that the joint electric resource  
5 planning that WEC is agreeing to, as I understand it,  
6 that it will take the combined load of both Wisconsin  
7 Public Service Corporation and WEPCO plus a 14 and a  
8 half percent reserve margin on that total and find --  
9 or perform the analysis needed to determine what  
10 generation is needed to serve that customer group or  
11 that load total?

12 A I don't know.

13 Q Who would know the answer to that question if it's  
14 not you?

15 A Talk about another witness in the case or --

16 MR. HEINZEN: Yeah. Do you guys know who  
17 would be the person to ask of that if it's not  
18 Mr. Leverett?

19 MR. WILSON: Well, the company has not yet  
20 engaged in joint resource planning because the  
21 company has not had access to WPSC's data. So that  
22 analysis has not been done, and I don't know the --  
23 the format in which that analysis will be undertaken  
24 has been decided.

25 BY MR. HEINZEN:

1 Q And I guess my -- I guess more to the point, I  
2 understood from testimony that WEC would agree to  
3 joint electric resource planning; is that correct?

4 A Well, I mean what we say in the testimony is that we  
5 would submit a joint resource plan.

6 Q And so you have an idea? I mean, you've agreed that  
7 you would submit a joint electric resource plan. And  
8 my question then to you is, does your joint electric  
9 resource plan that you're agreeing to submit one that  
10 combines the load of WEPCO together with the load of  
11 Pub Service and then takes a 14 and a half percent  
12 reserve margin on top of that and will plan for  
13 generation to serve that load?

14 A And I'm sorry, I think that's the same question you  
15 asked me before.

16 Q Right.

17 A And I don't know.

18 MR. HEINZEN: And I guess my -- you have,  
19 as I understand it, made a commitment, and I want to  
20 just determine what the scope of that commitment is  
21 because the answers could be dramatically different,  
22 and it would be helpful to know, I guess, really the  
23 scope of what that plan you would agree to include  
24 is.

25 MR. WILSON: Yeah. Like I said,

1 Mr. Heinzen, I don't know that the scope of that  
2 plan has been decided. They committed to do a plan.  
3 The details of -- the mechanics of how that plan  
4 would be undertaken have not yet been decided.

5 MR. HEINZEN: Who makes that decision?

6 BY MR. HEINZEN:

7 Q I should ask Mr. Leverett. If it hasn't been -- if  
8 WEC hasn't decided yet the scope or -- the scope of  
9 that plan or how that plan will be prepared, who do  
10 you believe will determine what that plan will  
11 include?

12 A Well, I'm speculating, but I imagine the Public  
13 Service Commission could -- could give us input on  
14 how they wanted that plan put together.

15 Q Do you believe that the Commission could set forth  
16 strictly the way in which that plan has to be made in  
17 order to get its approval for the acquisition?

18 A I don't know.

19 Q Can you tell me if WEC would object to any condition  
20 that the Commission would put in an order approving  
21 the acquisition if the Commission -- if that  
22 condition required WEC's joint electric resource plan  
23 to include the combined load of Pub Service and WEPCO  
24 together plus a 14 and a half percent reserve margin  
25 and -- and make that a condition of its approval?



1       A     Well, you know, again, I mean, the Public Service  
2             Commission can prescribe how they would want the  
3             analysis done with or without a condition would be my  
4             view.

5       Q     And do you hold that view even recognizing that Pub  
6             Service and WEPCO after the acquisition will remain  
7             distinct, regulated utilities?

8       A     Yeah. I can't speak as a matter of law, but, I mean,  
9             my expectation would be that both of these utilities  
10            would be jurisdictional by the Public Service  
11            Commission, and the Public Service Commission can  
12            tell those two utilities how they want this joint  
13            resource plan prepared.

14      Q     Okay. And I understand that to be that you don't  
15             anticipate right now WEC making an objection to a  
16             condition that strictly prescribes the way in which  
17             WEC would need to submit the joint electric resource  
18             plan?

19                   MR. WILSON: Objection. This is calling  
20                   for speculation and putting several carts before  
21                   several horses.

22                   EXAMINER NEWMARK: Yeah. I'm going to  
23                   sustain the objection.

24                   MR. HEINZEN: Sorry?

25                   EXAMINER NEWMARK: I'll sustain the

1 objection.

2 BY MR. HEINZEN:

3 Q The upshot is, you don't know the scope of the -- you  
4 can't tell me today what the scope of WEC's  
5 commitment is then with respect to the joint electric  
6 resource plan because the details haven't yet been  
7 worked out?

8 A Our commitment is to file a joint resource plan, and  
9 if the Commission is dissatisfied with the way we put  
10 that plan together, the Commission can give us input  
11 or an order and tell us to put it together a  
12 different way, so --

13 Q It's okay, though, if the Commission tells you before  
14 you submit the plan what it wants to see in the plan?

15 MR. WILSON: Objection. Seems to be  
16 asking for a legal conclusion, although I'm not  
17 sure.

18 BY MR. HEINZEN:

19 Q I'll just say to the extent that you know, you're  
20 involved in the -- you're involved in this, what I  
21 would consider to be a commitment so that the  
22 Commission will approve your acquisition, and I think  
23 it's fair to know as much as you know what WEC's  
24 intent is with respect to meeting that agreement.  
25 And if you don't know, you can say that, but I

1 think --

2 A Well, I guess I'm sorry to be repetitive, but, I  
3 mean, we've committed to do a joint resource plan  
4 within this time frame, and I've said to you that I  
5 believe the Commission can tell both utilities how  
6 they want to see that plan put together. So I guess  
7 there's just nothing else I can add to that.

8 MR. HEINZEN: Okay. I have no further  
9 questions.

10 EXAMINER NEWMARK: Okay. Commission  
11 staff?

12 MR. CHASCO: Just a couple questions,  
13 Mr. Leverett.

14 THE WITNESS: Sure.

15 CROSS-EXAMINATION

16 BY MR. CHASCO:

17 Q As part of the debate about the extent of WEC's  
18 influence over ATC should the merger be approved, I'm  
19 going to summarize your testimony. So feel free to  
20 clarify if I say it incorrectly in any way. You  
21 testified that in your opinion, the Commission should  
22 have jurisdiction over any subsequent ATC  
23 reorganization, and as a result you argue that some  
24 of Commission staff's concerns relative to ATC are  
25 either unfounded or overstated, and I understand you

1           have several pieces of that argument. With me so  
2           far?

3       A     With you so far.

4       Q     Thank you. If ATC restructures, can you commit that  
5           WEC will not oppose Commission jurisdiction over that  
6           restructuring?

7       A     WEC would not oppose the Commission's jurisdiction  
8           over a reorganization.

9                   MR. CHASCO: Okay. Thank you. That's  
10           all.

11                   EXAMINER NEWMARK: Redirect?

12                   MR. WILSON: No, Your Honor.

13                   EXAMINER NEWMARK: Okay. Thanks. You're  
14           excused.

15                   (Witness excused.)

16                   EXAMINER NEWMARK: Let's go off the  
17           record.

18                   (Discussion held off the record.)

19                   (Break taken.)

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1 EXAMINER NEWMARK: All right. Ready for  
2 the next witness.

3 MR. WILSON: Yes. Mr. Reed.

4 JOHN J. REED, WEC WITNESS, DULY SWORN

5 DIRECT EXAMINATION

6 BY MR. WILSON:

7 Q Good morning, Mr. Reed.

8 A Good morning.

9 Q Did you prepare or cause to be prepared direct,  
10 rebuttal, and surrebuttal testimony in this case?

11 A Yes, I did.

12 Q Did you also prepare or cause to be prepared nine  
13 exhibits?

14 A Yes.

15 Q If I asked you the questions contained in your  
16 testimony today, would your answers be the same?

17 A Yes, they would.

18 Q And subject to the errata that was filed concerning  
19 your testimony, do you have any other corrections to  
20 your testimony?

21 A No, I do not.

22 Q All right. Judge Newmark sent an e-mail yesterday  
23 that I understand you've seen seeking clarification  
24 on I think three points in your testimony. I'd like  
25 to go over that briefly, if we could.

1 A Certainly.

2 Q The first clarification, point of clarification, was  
3 in your rebuttal testimony at page 21. You make a  
4 reference to small and midsize companies such as WEC  
5 and Integrys. Could you clarify what you meant by  
6 small and midsize companies in that context?

7 A Yes. Generally the industry definitions are small  
8 capitalization companies or small cap are less than  
9 \$2 billion of market cap, that is the market value of  
10 the equity of the company. Midsize companies are  
11 between 2 billion and 10 billion of market  
12 capitalization.

13 Q Thank you. In your rebuttal testimony on page 22,  
14 starting on line 15, you noted that other  
15 transactions have been announced since the, capital  
16 T, Transaction was announced and more are almost  
17 certainly on the way. Could you please provide  
18 examples?

19 A Yes. Since the transaction here was announced, there  
20 has been an announcement of an intended merger  
21 between NextEra Energy and Hawaiian Electric. There  
22 has also been an announcement of the proposed  
23 acquisition of Cleco, or Central Louisiana Electric  
24 Company, by Macquarie Infrastructure Group and other  
25 equity partners. Also the proposed acquisition of

1 United Illuminating by Iberdrola of Spain, and a  
2 partial acquisition of Indianapolis Power & Light by  
3 Caisse de depot, Quebec.

4 MR. WILSON: Thank you. And with respect  
5 to the third point of clarification, Your Honor,  
6 we'd just provide a citation and refile a piece of  
7 testimony.

8 EXAMINER NEWMARK: Yeah.

9 MR. WILSON: With that, Mr. Reed is  
10 available for cross-examination.

11 EXAMINER NEWMARK: Okay. Thank you. So  
12 CUB first.

13 CROSS-EXAMINATION

14 BY MS. LOEHR:

15 Q Mr. Reed, do you have your surrebuttal testimony with  
16 you?

17 A Yes, I do.

18 Q Page 11, line 8.

19 A I have that.

20 Q So this is the beginning of a Q and A referring to  
21 Mr. O'Donnell's testimony regarding a preliminary  
22 financial analysis performed on behalf of the  
23 Integrys Energy board of directors; is that correct?

24 A Yes.

25 Q And you discuss the analysis as to be what you



1 believe a confidential presentation that was also  
2 referred to by CUB witness Mr. Hahn on page 15 of his  
3 direct?

4 A Yes.

5 Q And have you personally reviewed this presentation?

6 A Only one page of it. I have reviewed public  
7 characterization of it in an 8-K and in a letter  
8 filed in the Minnesota Commission's case on this  
9 merger, but that's the extent of my review of the  
10 document.

11 Q What is the one page that you reviewed?

12 A It is a page that discusses -- it is the page that  
13 discusses --

14 MR. WILSON: Mr. Reed -- Mr. Reed --

15 MS. LOEHR: I'm sorry.

16 MR. WILSON: I'm going to stop you. This  
17 is actually an attorneys' eyes only page that has  
18 been declared by Integrys, not by WEC, so we have I  
19 think a different subset of people who can be in the  
20 room.

21 EXAMINER NEWMARK: Okay. Are you getting  
22 into the details?

23 MS. LOEHR: Yeah. I'm sorry. I was  
24 confused by the answer whether that page is public  
25 or not, but if it's confidential then, yes, I need

1 to get into confidential.

2 EXAMINER NEWMARK: Okay. Let's clear the  
3 room and get into attorneys' eyes only session.

4 (Refer to attorneys' eyes only volume 6.)

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1 CONTINUED TRANSCRIPT OF PROCEEDINGS

2 EXAMINER NEWMARK: Any public questions?

3 MS. LOEHR: I do.

4 EXAMINER NEWMARK: Okay. Go ahead.

5 CONTINUED CROSS-EXAMINATION

6 BY MS. LOEHR:

7 Q Mr. Reed, you still have your surrebuttal testimony  
8 with you?

9 A Yes, I do.

10 Q Page 8, line 16.

11 A I have that.

12 Q Okay. So there you're discussing the \$600 million in  
13 savings identified by Commission staff witness Ken  
14 Detmer associated with the EGEAS analyses that he  
15 performed in conjunction with his direct testimony;  
16 is that right?

17 A Yes.

18 Q What is your understanding of how Mr. Detmer derived  
19 the \$600 million estimate?

20 A By examining the standalone resource portfolios and  
21 loads of WEPCO and WPS as compared to joint --  
22 planning joint dispatch, I suppose.

23 Q And do you know how the individual cost components of  
24 the \$600 million were developed?

25 A No, not in any detail.

1 Q Do you know generally?

2 A I know how the EGEAS model works, if that's your  
3 question.

4 Q No. My question is, what do you know about what the  
5 cost components that make up the \$600 million are?

6 A Only what was presented in Mr. Detmer's testimony.

7 Q So what is your understanding of that?

8 A I'd have to go back to his testimony to give you any  
9 specific references, but I reviewed his testimony,  
10 and that's what's reflected here. I would --  
11 everything else I would just have to read out loud  
12 whatever is in his testimony.

13 Q So you have no independent understanding other than  
14 the exact words on Mr. Detmer's page of what makes up  
15 the components of the \$600 million?

16 A Yes. That's correct.

17 Q So you said you understand EGEAS?

18 A Yes.

19 Q So you understand that the only way for -- what do  
20 you understand for the ways that EGEAS can show  
21 savings with respect to combining generation  
22 portfolios?

23 A It can show savings in terms of joint dispatch, that  
24 is energy savings, variable O&M savings. It can show  
25 savings in terms of reduced costs of an expansion

1 plan for individual utilities versus joint utility,  
2 or a joint utility. It can include savings from  
3 transmission losses and transmission -- relieving  
4 transmission constraints.

5 Q And did you review the -- only the public version of  
6 Mr. Detmer's testimony and exhibits?

7 A Give me just a moment. I can tell you. I reviewed a  
8 version of Mr. Detmer's testimony which on the  
9 Commission website is listed as reference No. 229717.  
10 I believe there is no difference in that between  
11 his -- between a public and a confidential version.

12 Q And he also had an exhibit, Exhibit PSC-Detmer-1?

13 A Yes. On that one I -- excuse me. On that one I  
14 reviewed the redacted version.

15 Q Okay. To your knowledge, can there be \$600 million  
16 in savings under Detmer's -- under Mr. Detmer's  
17 analysis if Fox 3 is built?

18 A I have no opinion on that.

19 Q Okay. Do you know whether any generation resources  
20 need to be constructed or not to be constructed in  
21 order to achieve the dollar amount that Mr. Detmer  
22 identified?

23 A Again, I don't have an opinion on that.

24 Q That means you don't know?

25 A I don't know.

1 Q Okay. I want to turn to your direct testimony for a  
2 minute and the Chart 3 on page 36.

3 A Yes, I have that.

4 Q And could you describe how you chose the entities  
5 that you chose to include in Chart 3?

6 A Yes. We went through all of the mergers over the  
7 past 10 years, public utility mergers that had been  
8 announced. We then screened for the following types  
9 of companies: mergers involving an electric utility  
10 first of all; second, mergers that were of sufficient  
11 size. There were a few that we thought were just too  
12 small to basically bother with. And mergers that  
13 were completed as opposed to mergers that did not get  
14 completed. That brought us to 27 companies. We then  
15 examined those -- or 27 mergers. We then examined  
16 those 27 mergers to determine which ones filed merger  
17 savings estimates. Those are the ones that are shown  
18 on chart 3 on page 36 with one exception. The eighth  
19 one down from the top, which is the WEC/WICOR merger,  
20 we added because it is relevant given that those  
21 companies are part of the application here.

22 Q So you mentioned that these -- with the exception of  
23 WEC/WICOR -- and back up for a second.

24 There are 15 acquisition -- mergers or  
25 acquisitions listed on the chart?

1 A Correct.

2 Q Okay. So there are 14 that represent non-actual  
3 savings?

4 A There are 14, yes, that represent estimated savings  
5 at the time of the merger filing or the merger  
6 approval filing for those companies.

7 Q So it's at the time of the application this is what  
8 those entities included as a forecast for savings in  
9 their application?

10 A Yes. And just to be clear on savings, it is savings  
11 net of cost to achieve. So, yes, it is the forecast  
12 those companies submitted to the commission and the  
13 commission reviewed as part of its consideration of  
14 the merger itself.

15 Q Okay. And net of cost to achieve means both net of  
16 transition costs and transaction costs?

17 A No. Just transition costs.

18 Q Okay. And you said that these were mergers that had  
19 been filed in the last 10 years? You said something  
20 with respect to 10 years. I'm sorry.

21 A Yes. That were announced in the last 10 years or 10  
22 years as of the date my testimony was put together.

23 Q And did you also receive a data request from  
24 Commission staff asking for the basis of your opinion  
25 regarding the range of 3 to 5 percent savings?

1 A Yes.

2 Q And did you prepare a response to that request?

3 A Yes.

4 MS. LOEHR: Your Honor, could we mark  
5 this?

6 EXAMINER NEWMARK: Sure. That's Reed 11;  
7 is that right?

8 (Exhibit Reed 11 marked for identification.)

9 BY MS. LOEHR:

10 Q Mr. Reed, we're going to go through this page by  
11 page. The first page which has been marked as  
12 Exhibit WEC-Reed-11, does that look like the question  
13 and your written response to data request number PSCW  
14 1.05?

15 A Give me just a moment. Yes.

16 Q And then your response as filed on the Commission's  
17 ERF system included multiple supporting -- multiple  
18 documents supporting this response; is that correct?

19 A Yes. Many hundreds of pages.

20 Q Yeah. 15 parts or something?

21 A Yes.

22 Q Okay. Do you recognize the next one, two, three,  
23 four, pages in the exhibit as an excerpt from part  
24 one of the supporting documentation?

25 A It is a document that I am sure is in that set. I



1           can't -- without going through many hundreds of  
2           pages, I can't assure you that it was from part one,  
3           but it was in the set someplace.

4       Q     But from the supporting documentation somewhere?

5       A     Yes.

6       Q     And this is part of the information that you reviewed  
7           and used to create your Chart 3?

8       A     It is part of the information I reviewed. I'm not  
9           sure that we used these four pages for anything, but  
10          we did review it.

11                   MS. LOEHR: Okay. Your Honor, first,  
12          before I forget, I ask that this be moved in.

13                   EXAMINER NEWMARK: Okay. Any objections?

14                   MR. WILSON: No.

15                   EXAMINER NEWMARK: Okay. It's in.

16                   (Exhibit Reed 11 received.)

17       BY MS. LOEHR:

18       Q     And then specifically on the last page of the  
19           exhibit, the Illustrative Synergy chart, it looks  
20           like it was prepared by Barclays Capital?

21       A     Yes.

22       Q     Did you rely on that in any way?

23       A     We did. We examined it to make sure that we had  
24           captured all of the transactions that have been  
25           captured in this deal. As you probably know, I was a

1 witness in this case. This is the NSTAR/Northeast  
2 Utilities merger case, so we wanted to make sure our  
3 sample was not materially different than what they  
4 had come up with.

5 Q Did you attempt with respect to Chart 3 to analyze  
6 the actual savings of any of those mergers or  
7 acquisitions that had closed within the time period  
8 estimated in Chart 3 for synergy steady state energy  
9 savings to occur?

10 A Not sure I followed all that question. Was it, did I  
11 attempt to determine or review the actual savings for  
12 any of them?

13 Q Yes.

14 A Yes. For two of them.

15 Q Which two?

16 A As we discussed earlier, the eighth one from the top,  
17 which is the WEC/WICOR merger is an estimate of  
18 actual savings.

19 Q Okay.

20 A And number three, the BEC/Commonwealth Energy merger,  
21 which is shown there on that black bar. We also  
22 reviewed the actual merger savings estimates -- no,  
23 it's not estimates -- the actual merger savings  
24 documentation for that merger.

25 Q But what you have identified in Chart 3 is the

1 forecast for the BEC/Commonwealth Energy?

2 A Yes. It was the information submitted in the  
3 application on which the Massachusetts DPU relied.

4 Q Okay. And did that merger -- do you know when that  
5 merger closed?

6 A I think it was 1999, but that's, you know, plus or  
7 minus a year.

8 Q So how does that fit into that you picked mergers  
9 from the last 10 years?

10 A I think that may be an exception. I'd have to go  
11 back and check the actual data, but it was one that  
12 we had a merger savings estimate for as well as  
13 actual merger savings documentation, but it may be  
14 one that was outside of the initial 10-year window.  
15 I can accept that.

16 Q And do you know when the NSP/New Century merger was  
17 finalized?

18 A No, not without checking.

19 Q So I'm showing you a page downloaded from the web  
20 from the Minnesota Public Radio Archive. States  
21 Northern States Power merger with New Century  
22 Energies is about to be finalized dated August 17,  
23 2011. Does that refresh your recollection?

24 A What was the date you just read?

25 Q It's hard to read, but there it is. August 17, 2000.

1           Sorry. Thank you.

2           A     Yes, I see that date.

3           Q     Does that refresh your recollection as to the time  
4                 frame when the New Century/NSP merger closed?

5           A     It would appear that it was some time shortly after  
6                 August 17th of 2000.

7           Q     So it was outside of the last 10 years?

8           A     Yes.

9           Q     You mentioned that you had identified 27 mergers or  
10                acquisitions from the last 10 years and then took  
11                these as a subset from that list?

12          A     Yes. Let me go back and check that, but, yes, 27 is  
13                the number. Yes, that's correct. That's what I  
14                said.

15                       MS. LOEHR: Okay. Your Honor, I apologize  
16                       for not having a copy of that one, and let me say  
17                       what I'm talking about first.

18          BY MS. LOEHR:

19          Q     In response to a data request, did you provide in a  
20                chart form the names of those 27 mergers?

21          A     Yes, I believe so.

22          Q     Specifically PSCW data request No. 10.17?

23          A     Yes, we have provided that in that response.

24                       MS. LOEHR: Your Honor, could I have that  
25                marked as an exhibit as well? Do you guys have it

1 or know it?

2 EXAMINER NEWMARK: Well, I -- okay. It's  
3 the -- it's the response to request PSCW 10.17 and  
4 the attached document?

5 MS. LOEHR: Yes.

6 EXAMINER NEWMARK: So you want to include  
7 printouts of both pages, both documents?

8 MS. LOEHR: Yes.

9 EXAMINER NEWMARK: Is that Reed 12, I  
10 believe? Oh, no, wait.

11 MR. WILSON: Your Honor, could I just ask  
12 for a second to look at it.

13 EXAMINER NEWMARK: Yeah. Well, it would  
14 be Reed 11, though, right, just for marking  
15 purposes?

16 MR. CHASCO: I believe that's 12.

17 EXAMINER NEWMARK: Let's go off the  
18 record.

19 (Discussion held off the record.)

20 EXAMINER NEWMARK: Okay. So that's Reed  
21 12, PSCW data request response 10.17.

22 (Exhibit Reed 12 marked for identification.)

23 MS. LOEHR: Yes. And, Your Honor, has  
24 that been moved in?

25 EXAMINER NEWMARK: No. Any objections to

1           that?

2                       MR. WILSON: No.

3                       EXAMINER NEWMARK: Okay. Now it's in.

4                       (Exhibit Reed 12 received.)

5 BY MS. LOEHR:

6 Q       And you mentioned when we were first talking about  
7       Chart 3 that the mergers that you included on there  
8       were ones that had closed?

9       A       Yes.

10 Q       Do you see towards the bottom of Chart 3  
11       Exelon/PEPCO?

12 A       Yes. And I should have -- I'll correct myself, that  
13       were closed or pending.

14 Q       Okay. So some of these are active right now?

15 A       That may be the only one. Let me check. Yes, that's  
16       the only one that is pending.

17 Q       Okay. And if there are any mergers or acquisitions  
18       on Chart 3 that are not on the chart in response to  
19       Exhibit WEC-Reed-12, that means they occurred outside  
20       of the 10-year time frame from 2004 to now?

21 A       No. WEC-Reed-12 is a list of all 27, which includes  
22       many that did not prepare a merger savings or synergy  
23       estimate. Exhibit -- Chart 3 only shows those that  
24       prepared as part of their regulatory application a  
25       merger savings or synergy estimate.

1 Q And if there are mergers or acquisitions identified  
2 on Chart 3 that are not in Exhibit WEC-Reed-12 at  
3 all, then those occurred -- closed before 2004?

4 A Or that we thought were -- if I understand your  
5 question again, if we take the entire universe of  
6 mergers, if we take all 72 that Mr. O'Donnell --  
7 actually, those weren't transactions. But if we look  
8 at all 72 regulatory approval processes that  
9 Mr. O'Donnell has in his database, the difference  
10 between his and mine --

11 Q I don't mean to stop you there, but I really only am  
12 talking about your Chart 3 and your response to PSCW  
13 10.17.

14 A Yes. And --

15 Q So if there are mergers and acquisitions on Chart 3  
16 that are not in the chart in response to PSCW  
17 No. 10.17, they occurred before 2004?

18 A Yes, I think that's correct as I understand your  
19 question.

20 Q And we just talked about Exelon/PEPCO for a minute,  
21 that that one is in the middle of the application  
22 process?

23 A I think they hope it's at the end, but, yes.

24 Q Okay. Have you been following that case?

25 A I have.

1 Q Are you aware of any recent commitments that Exelon  
2 and PEPCO have made with respect to that case?

3 A Yes, generally.

4 Q So I've handed you a document from Gazette.Net,  
5 Maryland Community News, published Tuesday, March 10,  
6 2015, PEPCO, Exelon boost customers benefits in  
7 takeover. Can you please review that document and  
8 see if that refreshes your recollection as to the  
9 types of commitments that WEPCO -- excuse me, Exelon  
10 and PEPCO have recently offered?

11 A Okay. Give me just a moment.

12 Q Sure.

13 A I've reviewed it quickly.

14 Q Can you describe what those commitments are?

15 A Is your question about the new commitments?

16 Q The new commitments, yes.

17 A According to this article, they have more than  
18 doubled the customer investment fund in the state of  
19 Maryland from 40 million to 94.4 million. That fund  
20 would provide bill credits, assistance for low income  
21 customers, and energy efficiency measures. It also  
22 indicates the companies promised another 127.2  
23 million in the first 10 years and more than  
24 17 million thereafter coming back to Maryland  
25 customers through lower rates. That's what I see



1 from new commitments.

2 Q And does that correspond with your recollection of  
3 the type of commitments that were recently offered by  
4 Exelon?

5 A In Maryland, yes.

6 MS. LOEHR: That's all I have. Thank you.

7 EXAMINER NEWMARK: Okay. Let's go off the  
8 record for a second.

9 (Discussion held off the record.)

10 EXAMINER NEWMARK: Let's get back on and  
11 ask -- so CUB was all done?

12 MS. LOEHR: Uh-huh.

13 EXAMINER NEWMARK: So any other questions  
14 for Mr. Reed? Go ahead.

15 CROSS-EXAMINATION

16 BY MR. HEINZEN:

17 Q Thank you. Hi, Mr. Reed. Steve Heinzen representing  
18 the Wisconsin Industrial Energy Group. I guess just  
19 a couple things that occurred to me from Ms. Loehr's  
20 cross-examination. Is there an acquisition premium  
21 in this acquisition?

22 A Yes.

23 Q And how much is that?

24 A I don't have the specific number in front of me, but  
25 we should also be careful that acquisition premium

1 means two different things to different people. One  
2 would be the amount above the book value of the  
3 underlying companies. The other is a premium above  
4 the recent trading price of the stock. Those are  
5 very different figures and actually have gotten  
6 confused in this record.

7 Q Okay. And is there an acquisition premium in your  
8 opinion under either definition of acquisition  
9 premium?

10 A Yes. There's an acquisition premium above book  
11 value, and there's also an acquisition premium for  
12 the Integrys shareholders above the 30-day or 90-day  
13 average price pre-transaction.

14 Q At your surrebuttal, Reed 9, the word two point -- or  
15 I should say you identified a \$2.4 billion  
16 acquisition premium, and can you tell me which of the  
17 two definitions you're referring to is intended with  
18 that \$2.4 billion?

19 A You're on rebuttal page 9?

20 Q I'm sorry, surrebuttal.

21 A Surrebuttal?

22 Q Yeah.

23 A As it says in line 22 of that, that is the difference  
24 between the book value of the acquired assets and  
25 acquisition price, and that's my point there is what

1 I was saying before, there's confusion as -- in the  
2 record by some witnesses treating that as the premium  
3 being paid to shareholders. That's not accurate.

4 Q Okay. And do you know what the premium paid to  
5 shareholders is?

6 A That depends on the basis in which you measure the  
7 price, the day before the merger, or 30 days before  
8 the merger, or 90 days before the merger, but I don't  
9 have that specific figure.

10 Q Is it rounded to the nearest \$100 million?

11 A That's a number you should probably get from the  
12 company rather than me. I don't have that number.

13 Q Okay. And I guess if you -- is it -- I guess is it  
14 your understanding that a synergy study is used by a  
15 utility in an acquisition setting like this to make  
16 sure that the acquisition recovered that acquisition  
17 premium?

18 A No, not at all. Very few transactions are expected  
19 to have the acquisition premium in either premium  
20 above book or the premium above the trading price  
21 recovered through synergies.

22 Q Okay. If you would take a look at your response to  
23 PSCW 1.05, which I think is WEC-Reed-11.

24 A I have that.

25 Q Okay. The second to last page of this exhibit, and I

1 understand this is -- well, I guess, first of all,  
2 can you -- the documents that are attached to this  
3 answer of yours, what are they intended to show?

4 A They were simply documents in our files that we had  
5 reviewed in preparing the merger synergy estimate,  
6 which was the nature of the question I was asked by  
7 staff here.

8 Q Okay. So does that indicate an agreement or a  
9 disagreement with any of the documents that were  
10 attached?

11 A No, I don't think you can infer that there's an  
12 agreement by me to some statement made in these  
13 documents.

14 Q Okay. And I just want to have your opinion then  
15 on -- if you turn to the second to last page, which  
16 is filed January 27th of 2011 in connection with the  
17 NSTAR/Northeast Utilities' merger.

18 A I have that.

19 Q Okay.

20 A What part would you refer to?

21 Q And are you familiar with these two witnesses?

22 A Yes.

23 Q And can you just tell me who Mr. McHale is and  
24 Mr. Judge is?

25 A Mr. Judge at the time was the CFO of NSTAR, and

1 Mr. McHale was the CFO of Northeast Utilities.

2 Q And I guess I'm most interested in the response that  
3 these two gentleman made to a Department of Public  
4 Utilities request, and if you would -- if you would  
5 just read, I guess, the very first paragraph of the  
6 response and let me know if you disagree with their  
7 opinion here.

8 A I guess this is a bit out of school, but I actually  
9 wrote this first paragraph.

10 Q Okay. So that means you agree with it?

11 A I do agree with it, and it's very important to  
12 understand the difference here.

13 Q And I guess I'm mostly interested in how the second  
14 sentence squares with what you told me just, like,  
15 you know, two minutes ago.

16 A Yes. The acquisition premium, the phrase that's used  
17 here in this response means an acquisition premium  
18 above the stock price, the trading value of the stock  
19 price pre-merger, not the acquisition premium  
20 measured against book value, which is what was  
21 referred to in my testimony.

22 It is true that companies that are paying  
23 a significant premium above the share price sometimes  
24 hope to fund that through retaining a portion of  
25 savings of the merger synergies. So frequently in

1           mergers -- I should condition this. In mergers that  
2           actually expect significant synergies that are driven  
3           by the opportunity for head count reductions and cost  
4           reductions, it is frequently the hope of the  
5           acquiring company that they can fund a portion of  
6           that stock premium, we'll use that phrase, out of a  
7           retained portion of the synergies.

8                       That's not the case here in the  
9           WEC/Integrysts merger, but it is frequently the case  
10          that that is one of the motivations of other bidders  
11          or acquirers in utility deals.

12       Q   And is that the -- I guess is that the distinction  
13           one draws as to whether or not a synergy savings  
14           study ought to be conducted is whether or not the  
15           acquiring utility believes it can recover some of  
16           that acquisition premium through synergy savings?

17       A   In transactions where the acquirer is seeking to  
18           basically fund some portion of the stock premium,  
19           yes, it's common to have that type of synergy study  
20           done up front, usually for the board so that they can  
21           reassure the board that the premium that's being paid  
22           will essentially get funded through a retained  
23           portion of synergy savings. Again, that's not at all  
24           the case here, but that is common in other deals I've  
25           been part of.

1 Q And how does -- remind me, how does WEC -- how does  
2 WEC believe it will recover its acquisition premium  
3 in this case?

4 A Acquisition premium in terms of stock premium as  
5 opposed to --

6 Q Yes. Yeah.

7 A It does not expect to recover any portion of the  
8 acquisition premium through rates. If it can through  
9 other mechanisms achieve cost reductions or other  
10 improvements that will allow it to improve returns,  
11 then it may be able to between rate cases or  
12 elsewhere help cover that cost, but its assurance,  
13 its commitment here, is that none of the acquisition  
14 premiums under either definition would be recovered  
15 through rates, which is again different from many of  
16 the transactions. Much more favorable to customers  
17 than those other transactions.

18 Q If you would turn to surrebuttal Reed 3. I think  
19 most of my questions are going to be referring to  
20 your surrebuttal testimony, and it is the sentence  
21 that begins on line 4. You -- I'm just going to  
22 quote you here, Importantly, neither staff nor any of  
23 the intervenors have demonstrated with evidence any  
24 downside to the proposed transaction. Did I read  
25 that correctly?

1 A Yes.

2 Q Okay. How do you define the word evidence in this  
3 sentence?

4 A Testimony and exhibits.

5 Q Anything other than that?

6 A Obviously I reviewed data request responses, but I  
7 from a strict perspective don't consider that to be  
8 evidence.

9 Q And would you consider evidence to be assertions  
10 without, I guess, underlying data? Would that  
11 satisfy your definition of evidence?

12 A Well, evidence again is if it's in the testimony or  
13 in exhibits, that would be part of the evidence I'm  
14 referring to here. So, yes, if there are assertions  
15 made, it is something I considered in making that  
16 statement.

17 Q You don't believe, do you, that in this particular  
18 proceeding that the staff and/or the intervenors have  
19 the burden to prove that the proposed transaction is  
20 not in the best interest of utility consumers,  
21 investors, and the public?

22 MR. WILSON: Objection. Calling for a  
23 legal conclusion.

24 MR. HEINZEN: Mr. Reed has on numerous  
25 occasions in his testimony given his view of what



1 the standard is, so I'm just asking him about that.

2 MR. WILSON: Has he given his view of what  
3 the burden is?

4 MR. HEINZEN: Yeah. Well, the standard.

5 EXAMINER NEWMARK: Well, I'll sustain that  
6 objection.

7 BY MR. HEINZEN:

8 Q In preparing your surrebuttal testimony, did you have  
9 the idea that either staff or the intervenors had to  
10 demonstrate evidence that the transaction was not in  
11 the best interest of customers or investors or the  
12 public?

13 MR. WILSON: Objection. Calls for a legal  
14 conclusion.

15 MR. HEINZEN: And here it's not. He is  
16 offering his opinion that there is no evidence.

17 EXAMINER NEWMARK: Yeah. Overruled.

18 THE WITNESS: I think your question was  
19 did I consider that? Yes, I did.

20 BY MR. HEINZEN:

21 Q And in that consideration, did you think that they  
22 did have to prove that it was not in the best  
23 interest of utility customers, investors, or the  
24 public?

25 A No, I did not think that they had to prove that

1 point. Just to make sure we're clear on that answer,  
2 I don't believe they had to prove that point in order  
3 for the Commission to not find the merger to be in  
4 the best interest of stakeholders.

5 Q And stakeholders being those three components, the  
6 utility customers or consumers, rather, the  
7 investors, and the public?

8 A Yes.

9 Q Okay. And this is actually going to refer to the  
10 statutory standard that you identified earlier as  
11 well, but I just want to make sure I understand how  
12 all of your testimony -- you know, what you had in  
13 mind when you were preparing all three rounds of your  
14 testimony, and it's this, is it -- was it your belief  
15 in preparing the testimony that the best interests of  
16 utility consumers, the investors, and the public are  
17 to be taken as a group and not to be looked at  
18 independent of one another?

19 A I think the best interest is on essentially an  
20 aggregate basis for the state.

21 Q Which is to not look -- not to make independent  
22 determinations as to whether it's in the best  
23 interests of the utility consumers and in the best  
24 interests of investors and in the best interests of  
25 the public?

1       A     I guess I would put it a little differently.  I don't  
2             think any one of those is sufficient individually to  
3             meet the standard.  I view the standard as  
4             essentially being the public interest standard, and I  
5             view the public interest as encompassing a very broad  
6             range of considerations.

7       Q     On page 3, line 8, and here again we're still talking  
8             with this definition, but you're identifying the  
9             standard.  You note that everybody agrees that the  
10            transaction to be approved has to be in the best  
11            interests of the utility consumers, investors, and  
12            the public.  And that's at Reed 3, lines 8 to 10.

13      A     That's correct.

14      Q     Okay.  Do I understand the thrust of all of your  
15             testimony to come down to the following, that the  
16             transaction is likely to be in the best interest of  
17             utility consumers, investors, and the public?

18      A     No.  I think my testimony goes beyond simply making  
19             that statement.  It goes to identification of  
20             benefits, specifically cost reductions, reliability,  
21             service quality, many other aspects that I think also  
22             factor into it.  It even puts numbers on it and  
23             provides a basis for my conclusion that these savings  
24             are in fact likely and will be passed through to  
25             customers.

1 Q And just to I guess parse that last statement, if  
2 they -- you said likely and will be passed through,  
3 and by that do you mean that if they appear, they  
4 will be passed through?

5 A Yes. That's correct. Unlike, as we said in some  
6 other deals where the utility was seeking to retain  
7 all the merger synergies, that is not the case here.

8 Q Okay. But you haven't testified that the transaction  
9 is certain to be in the best interest of the utility  
10 consumers, and the investors, and the public?

11 A There is no guarantee, as Mr. Leverett said before  
12 me, but I think it is very highly likely and in my  
13 view meets the standard.

14 Q On page 3, lines 13 to 16.

15 A Yes, I have that.

16 Q Okay. Just a moment here. Yeah. So beginning at  
17 line 13, I'll just read this. "The intervenors take  
18 the position that the merger will, however, satisfy  
19 even the intervenors' interpretation of the standard,  
20 which staff Witness Bartels acknowledges has evolved  
21 if WEC shareholders agree to further economic  
22 concessions." Did I read that correctly?

23 A Yes.

24 Q Okay. I guess I would like you to explain the if  
25 WEC's shareholders agree to further economic

1 concessions. Can you identify what economic  
2 concessions that the shareholders have already made?

3 A I was not using the term further there to -- hang on  
4 just a second. Let me start over.

5 If you look at the testimony, Mr. Lauber,  
6 there's a table of some 50 merger conditions that  
7 the company has agreed to. I think all of those can  
8 be characterized as concessions, either economic  
9 concessions or service concessions. So that's what  
10 I had in mind with regard to building on that  
11 argument further.

12 Q Okay. But you're not suggesting that the  
13 shareholders -- that there's some expressed  
14 concession of monies being given from the  
15 shareholders to ratepayers already in this proposed  
16 acquisition?

17 A I guess that depends on your starting point.  
18 Agreeing up front that there will be no recovery of  
19 the acquisition premium, agreeing up front that there  
20 will be no recovery of transaction costs, including  
21 costs that are associated with what will be cost  
22 reductions such as change of control payments  
23 occurring as part of the transaction which reduce  
24 head count, reduce salaries. All of those in my mind  
25 are economic concessions.

1                   In fact, if you look at some of the prior  
2                   mergers in Wisconsin, other utilities were permitted  
3                   to recover those costs. So I think there is a  
4                   concession there. It's a cost being incurred by the  
5                   shareholder of which it will absorb the expense and  
6                   not seek any recovery from ratepayers.

7       Q       And you identify that as a concession?

8       A       Yes.

9       Q       All right. On page -- I guess in reference to both  
10              Chart 3 of your direct testimony as well as I guess  
11              more specifically Northeast Utilities and NSTAR that  
12              you talk about in various places but including on  
13              page 8, line 8 to 9.

14      A       This is page 8 of the surrebuttal?

15      Q       Yes. I'm sorry, of the surrebuttal. And is it --  
16              and maybe I'm simplifying this too much, and so is it  
17              the case that Northeast Utilities and NSTAR and some  
18              of the others that you identified on Chart 3 are  
19              reasonable proxies for WEC's acquisition of Integrys?

20      A       Certainly collectively I think they are a good  
21              representation of what's been achieved or was  
22              expected to be achieved in the market. NU/NSTAR I  
23              think is a reasonably good proxy in many regards. It  
24              was the second major acquisition, so it was a  
25              follow-on deal, which is again a parallel here. They

1 do have adjacent service territories. It was a  
2 transaction that was described as not being driven by  
3 expectations of immediate merger synergies, but  
4 nonetheless they expected there would be some. So,  
5 yes, in many ways I think it is a parallel.

6 Q And is that important for -- I guess is that  
7 important for the Commission here to recognize? Is  
8 it important for the financial community to  
9 recognize? I'm trying to get a sense of how  
10 important that -- that parallel is between -- let's  
11 just stick with Northeast Utilities and NSTAR and WEC  
12 acquiring Integrlys.

13 A As I said, I think if you take the set -- the group  
14 of companies on Exhibit 3 as a whole, it's meant to  
15 be indicative of what I think is achievable in this  
16 transaction. And again, it's based upon the universe  
17 of other transactions that at least had comparable  
18 features, the timing, the fact that it involved  
19 electric utility, they were of some sufficient size.

20 Again, I'd hate to draw a parallel to --  
21 firmly to any one individual transaction, but for the  
22 purpose of trying to determine what is likely to be  
23 achieved or is achievable in this transaction, I  
24 think they are good indications.

25 Q And would you anticipate that the financial community

1 would see it that way as well?

2 A Well, in general. I mean, I've obviously reviewed  
3 the financial community's reaction to and coverage of  
4 the WEC and Integrys proposed merger. It is my  
5 estimate of 3 to 5 percent is consistent with what  
6 some of the independent research companies have  
7 estimated for this deal as well. So I think it is  
8 the kind of information the financial community also  
9 taken as a whole or taken largely reviews and relies  
10 on.

11 Q Sure. And would you agree that your analysis really  
12 requires -- for this acquisition to be approved, it  
13 is important that your analysis -- that the  
14 Commission finds your analysis and those utilities  
15 that you've used to be reasonable proxies for the WEC  
16 acquisition of Integrys?

17 A No, I don't think it's necessary that they view any  
18 transaction or, you know, all the transactions as  
19 being effectively parallel. The question before the  
20 Commission is, is the transaction in the best  
21 interest of those stakeholder groups. I put this  
22 forward as a measure of what I think are reasonable  
23 expectations. The Commission may determine that the  
24 number is 2 percent or 7 percent, and that these  
25 companies or some subset of them may or may not be



1 reasonable parallels. So I don't think the  
2 Commission's decision would hinge upon agreement with  
3 that specific conclusion that I've offered.

4 Q On page 11, line 6 to 7 of your surrebuttal, please.

5 A I have that.

6 Q Here you write, the merger should not be used as a  
7 platform for parties to leverage regulatory  
8 concessions that would otherwise be out of the  
9 question.

10 A Yes.

11 Q Wouldn't you -- let me ask you this way. By this  
12 statement, are you intending to mean that WEC doesn't  
13 want Wisconsin utility customers and regulators to  
14 negotiate as hard as the Michigan customers and  
15 administration and regulators did to make Michigan's  
16 approval of the acquisition more likely?

17 A No. Not at all. First of all, this is my opinion.  
18 I'm not attributing this to WEC. My view is taking  
19 positions that have already been litigated, in some  
20 cases very recently in the most recent case, seeking  
21 to relitigate them here is inappropriate. Asking the  
22 utility to write off hundreds of millions of dollars  
23 of assets as a way of basically -- engage in almost  
24 in financial brinksmanship I think is inappropriate.  
25 But for the proposed transaction, I cannot imagine

1 the Commission would entertain a view that it's  
2 appropriate to simply bring a utility in and ask it  
3 to write off hundreds of millions of dollars of  
4 assets simply because it would reduce rates to  
5 customers.

6 Q And how familiar are you with the agreements that WEC  
7 made with the various parties in Michigan to get --  
8 to make more likely Michigan's approval?

9 A I don't address that at all in my testimony. I mean,  
10 I've read trade press accounts of it, but that's it.

11 Q Do you have an opinion as to whether or not the --  
12 whether or not what WEC agreed to with the various  
13 parties in the Michigan transaction are likely to  
14 have been given absent their need for an approval of  
15 their acquisition in Michigan?

16 MR. WILSON: Objection. Calls for  
17 speculation.

18 EXAMINER NEWMARK: Sustained.

19 BY MR. HEINZEN:

20 Q Page 14, line 17 to 19. And I just have two more  
21 lines of questions and it has to do with use of --  
22 working with transaction costs, and I want to get an  
23 understanding of how that's being proposed. So at  
24 line 17 and 19 of your surrebuttal, you note that WEC  
25 has proposed to track and monitor transition costs

1 and to file reports with the Commission on an annual  
2 basis so that staff and interested stakeholders are  
3 fully aware of the costs that are being incurred to  
4 achieve savings. Do you see that?

5 A I do.

6 Q And my -- as stated here, it appears that WEC would  
7 independently determine what, I guess in the first  
8 instance, identify something that's a transition  
9 cost?

10 A Yes.

11 Q How are -- how would ratepayers be protected from  
12 misidentifying some costs as a transition, not a  
13 transition cost?

14 A The only way a transition cost would have any effect  
15 on customers would of course be through a subsequent  
16 rate case. There is no mechanism for recovery of  
17 those costs other than through here on a rate  
18 proceeding. In any subsequent rate proceeding, the  
19 company would put forward its view of savings  
20 achieved and transition costs and may seek to recover  
21 some or all of those transition costs as an offset to  
22 savings that have actually been achieved if those  
23 savings are greater.

24 So all of that would be subject to the  
25 Commission's review, the review of all of the

1 stakeholders in that rate proceeding through  
2 discovery, through cross-examination. So just as we  
3 are doing here, it would be thoroughly tested as to  
4 whether that representation of that transition cost  
5 was in fact a transition cost as opposed to a  
6 transaction cost, for example. It would be  
7 reviewable subject to discovery.

8 Q I'm sorry. I'm more interested in the circumstance  
9 where you come to a rate case, and there are costs in  
10 the rate case that WEC has not identified as a  
11 transition cost but ought to be identified as a  
12 transition cost, and what's the mechanism -- what do  
13 you anticipate to be the mechanism by which those,  
14 you know, unknowable to ratepayers that should be  
15 transition costs simply are not identified as such?

16 A I think, again, audit, discovery, cross-examination.  
17 As I understand your question, you know, if there's a  
18 cost that was included in the general accounts of the  
19 company and not segregated as the transition costs,  
20 how could that be identified. That type of review of  
21 the accounts and records of the company is what staff  
22 routinely does in rate cases, and many times other  
23 intervenors do as well.

24 Q With respect to the tracking or the recovery of  
25 transition costs, as I understand -- I guess I'm

1           trying to get -- I'm trying to understand how the  
2           proposal for tracking the transition costs and the  
3           savings squares with not seeking deferral for the  
4           transition costs.

5                       MR. WILSON:  Objection.

6                       MR. HEINZEN:  What's that?

7                       MR. WILSON:  Is there a question?

8           BY MR. HEINZEN:

9           Q       Yeah.  That's my question.  Can you tell me how the  
10           two -- how it is possible for WEC not to defer  
11           transition costs and yet still recover transition  
12           costs to the extent that they match up with synergy  
13           savings if those things happen in different years?

14           A       The transition -- excuse me.  If there's no deferral  
15           of transition costs, then you examine the transition  
16           costs that only incur in the base period or that are  
17           known and knowable for a test period in a rate  
18           proceeding.  So you would only be looking at  
19           transition costs within that time frame.  You would  
20           then be examining the savings in that time frame, and  
21           again those that are known or reasonably knowable  
22           looking forward that would be the product of those  
23           transition costs.

24           Q       And as I understand your response in an earlier data  
25           request, I think you said that that's actually

1 Reed -- what was this one here? Reed 11, which is  
2 your response to PSCW 1.05. That -- I mean, your  
3 conclusion is that there will be a net savings in the  
4 range of 3 to 5 percent after a 5- to 10-year ramp-up  
5 period.

6 A I'm sorry, are you reading from something from  
7 Reed 11?

8 Q I'm sorry, WEC-Reed-11, which is the request number  
9 PSCW 1.05.

10 A On page 1, okay.

11 Q Page 1. Your response, and it's just the last  
12 sentence --

13 A I see it.

14 Q -- of the first paragraph under response.

15 A Yes.

16 Q Okay. So you've concluded that the transaction is  
17 likely to generate net savings in the range of 3 to 5  
18 percent of non-fuel O&M of the combined company after  
19 a 5- to 10-year ramp-up period, right?

20 A Yes.

21 Q Okay. And as I understand, it is likely -- there  
22 will likely be transition costs in the first few  
23 years after the acquisition?

24 A Yes.

25 Q Okay. But the savings will not begin to arrive at

1 least in the 3 to 5 percent range until, as you say,  
2 in your opinion 5 to 10 years after the acquisition?

3 A Yes, in terms of reaching that fully sustainable  
4 level.

5 Q Right. So my -- I'm just going to give you an  
6 example, and I just want to understand -- I guess I  
7 want to understand the flow of dollars. So 2015,  
8 the -- we have -- you know, the acquisition's  
9 approved. WEC closes on the -- WEC closes, and in  
10 2015 it has \$20 million of transition costs, okay?  
11 You agree that WEC could not recover those in two --  
12 in '15 rates?

13 A Correct.

14 Q Okay. And they will not be able to recover them at  
15 any time into the future without asking for a  
16 deferral?

17 A Correct.

18 Q Okay. So assume then, adding to this, in 2016 again  
19 WEC has \$20 million of transition costs and still no  
20 synergy savings.

21 A That's your assumption?

22 Q Yeah, that's the assumption.

23 A I have that in mind.

24 Q Okay. So in total through the end of 2016 there's  
25 \$40 million of transition costs, and as you

1 understand WEC's proposal, WEC cannot and will not  
2 seek to recover those transition costs because it  
3 hasn't yet been able to demonstrate significant  
4 savings that are in excess of that \$40 million?

5 A You would have to build into your assumptions whether  
6 there's a rate proceeding ongoing or not. The issue  
7 only arises in a rate proceeding. If there's no rate  
8 proceeding, I agree completely with your  
9 characterization.

10 Q Okay.

11 A If there is a rate proceeding, it would be reviewed  
12 in that rate proceeding.

13 Q Okay. And so I appreciate you noting that. So WEC  
14 comes in for a base rate case -- I should say this.  
15 WEPCO and Pub Service both come in for base rate  
16 cases in 2016 for new rates to begin on January 1st  
17 of 2017, and let's just combine the two for purposes  
18 of this. In 2015 it had \$20 million of transition  
19 costs. Can't ever recover it. In 2016, \$20 million  
20 worth of transition costs. Can never recover that.  
21 It anticipates that in 2017 it will have \$5 million  
22 worth of transition costs and \$10 million of savings.  
23 So in total at the end of 2017, there will be  
24 \$45 million of transition costs and \$10 million worth  
25 of savings. Of that \$45 million, what do you



1 anticipate WEPCO would be able to recover at any  
2 time?

3 A That would depend on what is the base period and test  
4 period for the rate case, first of all. And  
5 secondly, whether the Commission wants to consider  
6 prospective savings as opposed to just achieved  
7 savings. So I can't answer that question without  
8 knowing what the Commission's going to do in that  
9 consideration.

10 Q Let's stick with the easy stuff then. If there is  
11 \$20 million of transition costs in 2015, do you  
12 understand that WEC's proposal to track transition  
13 costs in synergy savings is to say that that \$20  
14 million we spent, we can never recover it?

15 A Again, if there's no rate proceeding that has that  
16 test period or base period and there is no deferral  
17 mechanism, then that is my understanding.

18 Q And it's your understanding as well that WEC or its  
19 regulated subsidiaries will not be seeking to defer  
20 transition costs?

21 A I think that should be -- you're asking what WEC's  
22 commitments are. You should ask that of the company.

23 Q So you do not know whether or not WEC is going to ask  
24 to defer its transition costs as a consequence of  
25 this acquisition?

1 A I am not aware of any plans to do that, but I also  
2 don't want to speak to whether the company has  
3 permanently waived that possibility.

4 Q On 19 at line 22.

5 A I have that.

6 Q Okay. And I just want to know whether or not this is  
7 your understanding or your opinion or if this is what  
8 you know is in fact what WEC has proposed. And you  
9 write, in addition, no transition costs will go into  
10 rates unless they produce savings that exceed those  
11 costs.

12 A And your question is?

13 Q Is that your opinion, or is it instead what you know  
14 to be WEC's concession of having the Commission  
15 approve this acquisition?

16 A That is my understanding of the company's commitment  
17 in the case.

18 MR. HEINZEN: I have no further questions.  
19 Thank you.

20 EXAMINER NEWMARK: All right. Other cross  
21 questions?

22 MR. CHASCO: We have some questions.

23 CROSS-EXAMINATION

24 BY MR. CHASCO:

25 Q Mr. Reed, I'm Justin Chasco. I represent Commission

1 staff. I believe I have a couple different subjects.  
2 Let's stick with the transition cost compared with  
3 the synergy savings that Mr. Heinzen was just asking  
4 you about. Clearly in all of these rate recovery  
5 questions, timing is an issue. Would you agree with  
6 that?

7 A Yes.

8 Q Timing between rate cases and when they're recovered  
9 versus when they're put into rates or particular  
10 costs or revenue?

11 A Yes, I agree, timing is an issue.

12 Q If WEC were to defer transition costs, let's say  
13 indefinitely and net that against synergy savings,  
14 would their concession, or commitment as you've  
15 called it, to only recover transition costs to the  
16 extent they exceed savings, would that be meaningful  
17 at all?

18 A Yes, I think it's very highly meaningful. It means  
19 that customers can only benefit from the net of the  
20 two.

21 Q What do you expect based on your analysis of these 27  
22 other mergers that if we allowed -- excuse me -- if  
23 the Commission allowed, for example, a 20-year  
24 deferral, that savings would always exceed transition  
25 costs?

1 A In an individual year or cumulatively?

2 Q Cumulatively. Would it be highly likely to?

3 A I think there's no question that my opinion is  
4 savings are highly likely to exceed transition costs  
5 with or without deferral.

6 Q So I think as I understand your response to  
7 Mr. Heinzen's question or series of questions that  
8 the commitment to only recover transition costs to  
9 the extent they exceed savings would be costs that  
10 are incurred concurrently with those savings in  
11 whatever the one-year or two-year base period is?

12 A That is correct with regard to the consideration of  
13 transition costs. I made the point that many  
14 commissions choose to examine savings, not only with  
15 regard to current year, but lifecycle savings of an  
16 initiative. So I don't want to commit that you would  
17 only look at savings in that current year, base year  
18 or test year, but I have seen, as I said, other  
19 commissions say it's clear that over the life of this  
20 initiative it will produce net savings, therefore  
21 there is going to be allowed recovery of those  
22 transition costs.

23 Q So your understanding is there remains a question as  
24 to whether the Commission and the commitment that WEC  
25 has made at this point would consider lifecycle

1 savings or simply savings being realized in any  
2 particular rate case test year?

3 A I'm not aware that that issue has been addressed in  
4 any of the merger conditions or concessions made  
5 here. I think it's an issue that is best held for a  
6 future rate proceeding.

7 Q Turning to another series of questions by  
8 Mr. Heinzen. You identified, if you recall, what I  
9 believe are three economic concessions or commitments  
10 that the company has already made, and I had them  
11 written down as the acquisition premium that the  
12 shareholders will pay, the transaction premium that  
13 the shareholders will pay, excuse me, transaction  
14 costs, and the change of control payments. First of  
15 all, did I miss anything from that list?

16 A Not that I recall.

17 Q Are any of those costs things that would be incurred  
18 either by the company as a whole or specifically by  
19 the ratepayers if there was no merger being  
20 considered or acquisition?

21 A No. They are clearly all related to the merger. My  
22 point is that other cases, and in fact other cases in  
23 Wisconsin, have permitted recovery of those costs.

24 Q Thank you. With respect to the PEPCO/Exelon, excuse  
25 me if I said that wrong, merger that Ms. Loehr asked

1           you about, are you aware of whether those companies  
2           are planning layoffs subsequent to the closing of  
3           that merger?

4       A     Yes, they are.

5       Q     They are, okay. On the subject of layoffs, in your  
6           surrebuttal testimony you argue that immediate  
7           savings in your opinion could only be realized  
8           through layoffs. Is that a fair characterization of  
9           your testimony?

10      A     Yes, certainly on a net savings basis.

11      Q     But you would agree that whether or not to implement  
12           layoffs, whatever the income or the revenue of a  
13           utility is, is ultimately a management decision?

14      A     It is, yes.

15      Q     Is it your testimony then that any impact to the  
16           company's revenue would require management to  
17           implement layoffs?

18      A     I didn't follow your question. I'm sorry.

19      Q     Well, let's talk specifically. You made a specific  
20           argument that -- on page 3 or 4 of your surrebuttal  
21           that 1,000 jobs would be lost if the commission  
22           adopted a specific 5 percent reduction in non-fuel  
23           O&M costs that had been proposed by one of the  
24           intervenors. First of all, do you recall that  
25           testimony?

1 A Yes, I do.

2 Q First question, could you confirm that that specific  
3 estimate of jobs lost is tied directly and only to  
4 that one condition? I read your testimony to say  
5 specific to this proposed condition that that number  
6 of jobs potentially could be lost.

7 A It is tied to that one condition, and to that one  
8 condition's insistence that that be essentially at  
9 the outset of the merger.

10 Q Is it your testimony that any immediate rate savings  
11 that the Commission might require would absolutely  
12 require layoffs?

13 A I can't make that statement unequivocally. The -- in  
14 mergers that I've looked at, and that's a lot of  
15 them, the only way that you're likely to achieve net  
16 savings in the first year or the second year is  
17 through head count reductions. The opportunity to  
18 achieve other elements of non-fuel O&M cost  
19 reductions in that time frame is quite limited.

20 Now, there are a few examples I will say  
21 where you have seen savings achieved through fuel  
22 reductions or through capital reductions that are  
23 totally different from non-fuel O&M, and those have  
24 been able to be achieved without head count  
25 reductions, but those are not the kind of

1 opportunities that we see here. There is no, for  
2 example, joint dispatch benefit by -- because in fact  
3 you already have the units dispatched by MISO. You  
4 also don't have any capital planning that would move  
5 from two companies to one company on day one. So  
6 this commitment was expressed in terms of non-fuel  
7 O&M savings that this proponent wanted to see  
8 reflected in rates on essentially day one. That in  
9 my opinion can only be achieved in any likely fashion  
10 through head count reductions.

11 Q Mr. Heinzen asked a similar question, but I'm not  
12 sure if I understood your answer. With respect to  
13 the acquisition premium from market value to what's  
14 being paid, not the book value to what's being paid,  
15 when you say that the applicant has offered not to  
16 recover that in rates, I believe what you mean is  
17 that they're not going to specifically ask for rates  
18 to be raised to cover that cost?

19 A Not just that, but there would be no offset to  
20 savings to fund the stock premium as I'll call it.

21 Q Would you agree, though, that any synergies realized  
22 between now and the next rate case would be, unless  
23 the Commission so ordered, not to the benefit of the  
24 Wisconsin ratepayers?

25 A As I understand your question, if there are net



1 synergies achieved before the next Wisconsin rate  
2 proceeding, do those savings flow to customers?

3 Q Correct.

4 A Presumably not. As I said, savings and costs to  
5 achieve savings are only captured in rates through a  
6 rate proceeding.

7 MR. CHASCO: Thank you. That's all.

8 EXAMINER NEWMARK: Okay.

9 MR. HEINZEN: Just to follow up on this  
10 last question.

11 EXAMINER NEWMARK: Just one.

12 MR. HEINZEN: Certainly.

13 RECROSS-EXAMINATION

14 BY MR. HEINZEN:

15 Q And so I understand what your question was, I think  
16 that what -- maybe I missed the answer to the  
17 question, but if the utility has savings before the  
18 next rate case, it does get to keep the savings?

19 A If it has net savings, it gets to keep all the costs.  
20 And if there are savings that exceed those costs,  
21 those do not flow through the rates. Those don't  
22 reduce revenue requirement or anything else in that  
23 time frame. It only occurs at the time of a rate  
24 proceeding.

25 Q And I guess whether it's a net savings or not, any

1 savings that come about as a consequence of the  
2 transaction, they may not be savings greater than the  
3 transition cost, but any savings at all will be kept  
4 by the utilities until the next rate case?

5 A I can accept that, although you're talking about  
6 essentially negative savings.

7 Q Yeah.

8 A What you see most often in the first year is the cost  
9 to achieve exceeds savings achieved, so there's a  
10 negative impact. I'm not sure I would want to  
11 characterize that as savings.

12 MR. HEINZEN: Thanks.

13 EXAMINER NEWMARK: All right. I just had  
14 a question for you, sir. Off the record I mentioned  
15 a confusion, that I had anyway, about the term  
16 acquisition and merger. It relates to a number of  
17 witnesses within the case, but you do use the term  
18 merger a number of times. I just wanted, without  
19 trying to draw you through a number of questions and  
20 trying to clarify different statements, is there any  
21 way you can explain that generally so I can just  
22 understand whether you mean to say merger, what that  
23 means to you, and is it the same as acquisition, or  
24 is there a difference we need to be considering?

25 THE WITNESS: Short answer is there is no

1 difference realistically between merger and  
2 acquisition. Even when a company is acquiring a  
3 holding company, that is done through, accomplished  
4 through, the merging of one company into another.  
5 The only distinction is the difference between a  
6 corporate transaction, which includes mergers and  
7 acquisitions and an asset-based transaction. You  
8 can acquire a power plant or a pipeline out of  
9 another company. Our analysis does not include  
10 asset transactions, it includes all corporate  
11 transactions.

12 EXAMINER NEWMARK: Okay. Great. Thanks.

13 MR. WILSON: Just limited redirect.

14 REDIRECT EXAMINATION

15 BY MR. WILSON:

16 Q Mr. Reed, one of the prior acquisitions you looked at  
17 was the WEC/WICOR merger; is that right?

18 A Yes.

19 Q And in that merger, was there an acquisition premium  
20 paid?

21 A Yes.

22 Q Was there an upfront synergy savings study conducted  
23 in that case?

24 A No. There was no savings study presented to the  
25 Commission or conducted by the company.

1 Q Did the Wisconsin Commission authorize recovery of  
2 the acquisition premium in that case by having the  
3 company retain synergy savings realized even without  
4 an upfront synergy study?

5 A It gave the company the opportunity to recover the  
6 acquisition premium and its acquisition costs through  
7 a, as I recall, 5-year rate freeze, which allowed it  
8 to retain all of the savings to fully or partially  
9 offset the premium.

10 Q Just a minute ago you testified that in the first two  
11 years following closing of the deal you would expect  
12 what you call negative savings; is that right?

13 A At least for the first year that's typically the  
14 case. Sometimes through the second year as well.

15 Q And isn't it the case that the company essentially  
16 absorbs those negative savings in that period?

17 A Yes, it does. They reduce earnings.

18 Q I want to turn to some of the cross-examination that  
19 CUB conducted. Does the fact that some of the  
20 mergers that are contained in your Chart 3 in your  
21 direct testimony may have occurred more than 10 years  
22 ago change your estimate of 3 to 5 percent non-fuel  
23 O&M savings over the long-term?

24 A No. The -- I think the 3 to 5 percent is still a  
25 reasonable estimate. I would note that the two

1 transactions that were pointed out as being outside  
2 of the 10-year period are both -- they're number two  
3 and number three counting from the top here, NSP/New  
4 Century and BEC/Commonwealth. Those actually have  
5 had some of the highest percentages, so the reaching  
6 beyond the 10 years to include those actually skews  
7 the estimate higher.

8 Q Does the fact that some currently pending mergers  
9 were included in your analysis change your opinion  
10 that the company might expect 3 to 5 percent non-fuel  
11 O&M savings over the long-term?

12 A No. As I said, the only currently pending one is the  
13 Exelon/PEPCO. Exelon/PEPCO has announced it intends  
14 to engage in very vigorous cost reductions, including  
15 head count reductions post-acquisition. It has not  
16 been willing to offer the no layoff condition that  
17 WEC has here, and what is or is expected to be  
18 achieved from that transaction I don't think is  
19 comparable to what we see here.

20 MR. WILSON: Nothing further.

21 EXAMINER NEWMARK: Okay. Thank you.  
22 You're excused.

23 THE WITNESS: My pleasure, thank you.

24 (Witness excused.)

25 EXAMINER NEWMARK: Let's go off the

1 record.

2 (Discussion held off the record.)

3 EXAMINER NEWMARK: Let's take 45 minutes,  
4 so we'll be back at 2 o'clock.

5 (Break taken from 1:15 p.m. to 2:10 p.m.)

6 (Change of reporters.)

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1 (Teleconference established with Mr. Schott.)

2 JAMES F. SCHOTT, WPSC WITNESS, DULY SWORN

3 DIRECT EXAMINATION

4 BY MR. JACKSON:

5 Q Mr. Schott, can you hear me?

6 A Yes.

7 Q I'll take that as a yes. Mr. Schott, did you prepare  
8 or have prepared at your direction seven pages of  
9 direct testimony and an accompanying exhibit?

10 A I did.

11 Q And if I were to ask you the questions contained in  
12 your prefiled direct testimony today, would your  
13 answers be the same?

14 A They would.

15 MR. JACKSON: I have nothing further, Your  
16 Honor.

17 EXAMINER NEWMARK: All right. Do we have  
18 cross-examination?

19 MS. LOEHR: Not anymore.

20 EXAMINER NEWMARK: No? Okay. Did the  
21 union have a question?

22 MS. CRAWFORD: I don't have any, no.

23 EXAMINER NEWMARK: I guess we're done.

24 MR. JACKSON: Sorry to bother you,  
25 Mr. Schott.

1 EXAMINER NEWMARK: Okay. Well, thanks for  
2 appearing. We'll sign off then.

3 THE WITNESS: Okay. Well, thank you.

4 EXAMINER NEWMARK: That was easy.

5 (Witness excused.)

6 EXAMINER NEWMARK: Who's next?

7 MR. WINTERS: Mr. Lauber.  
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1 SCOTT LAUBER, WEC WITNESS, DULY SWORN

2 DIRECT EXAMINATION

3 BY MR. WINTERS:

4 Q Mr. Lauber, did you prepare or cause to be prepared  
5 direct testimony, supplemental direct testimony,  
6 rebuttal testimony and surrebuttal testimony in this  
7 proceeding?

8 A Yes, I did.

9 Q And with accompanying exhibits, correct?

10 A Correct.

11 Q And if we were to ask you the questions contained in  
12 your prefiled testimony today, would your answers be  
13 the same?

14 A Yes, they would.

15 MR. WINTERS: He's available for cross.

16 EXAMINER NEWMARK: Okay. Does CUB have  
17 questions?

18 MS. LOEHR: I do.

19 CROSS-EXAMINATION

20 BY MS. LOEHR:

21 Q Just a few questions. And the first set of questions  
22 relate to the benefits you identified for customers  
23 on pages 6 through 10 of your direct testimony.

24 A Okay.

25 Q So I'm trying to figure out whether there is any

1 overlap in what you've identified and the potential 3  
2 to 5 percent savings that Mr. Reed has identified.  
3 So are any of those potential benefits that you  
4 discuss on pages 6 through 10 of your direct  
5 testimony quantifiable?

6 A I'll just take a second to review this.

7 Q Sure.

8 A There are savings in here as it relates to combining  
9 the service functions of the service company that  
10 would be part of that 3 to 5 percent over the  
11 long-term that you would see through the economies of  
12 scale.

13 Q Okay.

14 A And having, you know, the larger diverse workforce  
15 long-term would benefit the company also. I mean, I  
16 didn't -- I would have to go through each line line  
17 by line again if you'd like.

18 Q Let me back up to what you just said. If you could  
19 expand on that answer. Is that part of the 3 to 5  
20 percent --

21 A Well, the 3 to 5 percent, you would benefit from the  
22 size and scale of the company when you look at the  
23 service company that we're looking at to establish.  
24 Okay. Also, when you look at the benefits with the  
25 larger group of employees overall and the best

1 practices, I don't know if I mentioned that  
2 specifically in this section. So particularly we  
3 talk about the individual areas within the WPS  
4 organization. That's the main aspect in this section  
5 of the testimony.

6 Q Okay. So you're not aware of any potential benefits  
7 in this section that are quantifiable that are not  
8 covered in the potential 3 to 5 percent estimate that  
9 Mr. Reed identified?

10 A Well, there's the 3 to 5 percent that he identified  
11 that I thought you were trying to identify what was  
12 in here that was covered there. There's also  
13 benefits, in my opinion we have a larger, stronger  
14 diverse company as we go look at long-term financing,  
15 so there is a benefit there. There's benefits as you  
16 look at -- potentially, if we talk about the dispatch  
17 of MISO and how we look across the fleet that  
18 Mr. Leverett talked about this morning.

19 Q Okay. So let's just nail those down. Let's go back  
20 to the first one. So there's potential quantifiable  
21 benefit with respect to financing costs?

22 A Potential longer term, correct.

23 Q Okay. And then there's potential quantifiable  
24 benefits with respect to MISO dispatch if there was  
25 joint resource planning?

1 A Possible, correct.

2 Q And are there any other potentially quantifiable  
3 benefits in this section of your testimony that are  
4 not encompassed otherwise in the 3 to 5 percent  
5 estimate from Mr. Reed?

6 A I don't see any right at this moment.

7 Q Then you talk in your testimony about transition cost  
8 recovery. Just generally.

9 A Correct.

10 Q And I want to get your understanding of what the  
11 company would be proposing under the following  
12 hypothetical scenario. WEPCo seeks recovery for  
13 \$20 million in transition costs for test year 2017  
14 and states that those costs should result in  
15 \$25 million of savings in the year 2020. How does  
16 the company propose to treat that situation with  
17 respect to recovery of transition costs?

18 A Well, we'd have to really look at what type of  
19 transition cost you're dealing with. So there's  
20 several different types of transition costs. There  
21 could be one where we're building capital. So  
22 capital could be employed so we could put in a  
23 system. And when we talk about savings, we look  
24 across the life of the asset in a forward-looking  
25 test year. So if that asset would provide savings in

1 2020 versus 2017 I think you said?

2 Q Um-hmm.

3 A You know, if you look across the life of that for the  
4 net present value, there's benefits there.

5 Q So what does that mean with respect to whether the  
6 company would request recovery of the \$20 million in  
7 transition costs for test year 2017?

8 A We would put it in the test year for 2017, but the  
9 long-term benefits of the customers would be over  
10 that life of the asset or the life of the investment.

11 Q So the company would propose to put it in rates in  
12 2017 and customers could expect to see savings in  
13 2020 and continuing?

14 A The company proposed to put that in the rate case.  
15 The Commission can make the decision if they would --  
16 they potentially could set up a deferral to match the  
17 revenues with the expenses, they could look at the  
18 life of the project. I can't decide -- I don't know  
19 what the decision will finally be.

20 Q I'm not asking about what the Commission would  
21 decide. I'm asking what the company is going to  
22 propose.

23 A In this hypothetical, at this time, I don't know all  
24 the different nuances of it or what this particular  
25 situation is. So I don't know the exact layout of

1 all of that.

2 Q Well, assume that it's costs incurred test year 2017,  
3 estimated benefits start in 2020.

4 A Then we would have that cost in the application for  
5 the 2017 test year.

6 Q Okay. And was that answer specific solely to capital  
7 projects?

8 A Well, no. We'd probably look at the total cost  
9 projecting, just like in every test year we project  
10 costs. The Commission in that case could decide if  
11 they would accept that cost, reject that cost or  
12 potentially set up a deferral for that cost as you go  
13 forward because the net benefit would be to the  
14 customers. So in that case, most likely a deferral  
15 would make a lot of sense to match that revenue in  
16 that expense, that cost would become your savings.

17 Q And still with this line of questioning, I'm just  
18 looking for what the company would propose, not what  
19 the Commission could do.

20 A And I haven't decided. I don't know exactly what the  
21 company would do three years from now in this  
22 hypothetical. I mean, I --

23 Q Okay. But you just said a second ago that -- and I  
24 was only trying to clarify whether that related  
25 solely to capital projects or capital projects and

1 expenses. But you indicated that if the costs were  
2 expected to be incurred in the year 2017 but the  
3 benefits were expected to begin -- not expected to  
4 begin occurring until 2020, that the company would be  
5 seeking recovery in rates in 2017 for those costs?

6 A Yeah. We would be applying it -- we may be in that  
7 case saying it makes a lot of sense for -- to set up  
8 a deferral, or we may be asking for recovery in that  
9 particular year.

10 Q And is there any difference in your answer if the  
11 cost is a capital cost versus an expense?

12 A A capital cost will be in service, and depreciating  
13 it we'd be following the GAAP accounting for capital  
14 expenditure at that time. So it would be incurred  
15 over that lifetime, part of the assets.

16 MS. LOEHR: That's all I have.

17 MR. HEINEMANN: I have one question, I  
18 hope.

19 CROSS-EXAMINATION

20 BY MR. HEINEMANN:

21 Q So just I'd like to -- Richard Heinemann on behalf of  
22 Great Lakes Utilities. I'd like to draw your  
23 attention to your rebuttal testimony and just touch a  
24 little bit on your discussion of the modified  
25 condition that the company has offered in response to



1 this rate levelization issue that's been raised by --

2 A What page are you --

3 Q -- by staff and intervenors. That would be page 13.

4 A Okay. Okay.

5 Q So you're generally aware and recall the concerns  
6 that have been raised with respect to addressing any  
7 potential rate impacts that would be caused in the  
8 event that the applicant's two independent electric  
9 utilities merge, correct?

10 A Correct.

11 Q And on page 13, you indicate, with respect to a  
12 condition that the company is proposing with respect  
13 to that issue, that WEC would confer with affected  
14 parties before filing regarding any legal merger of  
15 the utilities or levelization of rates, correct?

16 A Correct.

17 Q Okay. My question to you is very simple, and that is  
18 would you consider Great Lakes Utilities to be an  
19 affected party for purposes of that condition?

20 A To the extent they're a customer of the company, of  
21 the company.

22 Q And just so that we're clear, Great Lakes  
23 Utilities -- and the reason I'm asking the question  
24 is because this is Public Service Commission, Great  
25 Lakes Utilities is a wholesale customer of the

1 independent utility subsidiaries, it's not a retail  
2 customer. It's members, of course, will be impacted  
3 by rates.

4 So my question to you therefore is for  
5 purposes of having discussions with affected  
6 stakeholders or affected parties, would GLU be  
7 included in those discussions?

8 A I guess when I look at this, I look at different  
9 customer groups, not individual customers. So I look  
10 at wholesalers as a group, I look at retail customers  
11 as the group. So I'm not -- I don't want to make a  
12 commitment that I'm talking to every individual  
13 customer.

14 Q But to the extent that GLU is a wholesale customer,  
15 you would deem it to be an affected party?

16 A We said we would confer with affected parties, I  
17 would not necessarily that we will get all the  
18 parties to agree if we do.

19 Q I'm not asking -- that I understand. I'm not -- I  
20 know there's been discussion about that and some  
21 disagreement. I'm not going there. I'm just simply  
22 trying to clarify that the company would consider GLU  
23 an affected party insofar as GLU is a part of the  
24 group of wholesale customers?

25 A To the extent that we would see them to be affected,

1 I would say yes.

2 MR. HEINEMANN: That's all I have.

3 EXAMINER NEWMARK: Okay. Do you have  
4 questions?

5 MS. CRAWFORD: I do have a few questions.

6 CROSS-EXAMINATION

7 BY MS. CRAWFORD:

8 Q Good morning, Mr. Lauber. My name is Susan Crawford.  
9 I'm representing Local 420. You're an accountant,  
10 right?

11 A Correct.

12 Q We Energies went through a rate case proceeding  
13 before the Commission last fall, correct?

14 A That is correct.

15 Q And in that rate case, it presented to the Commission  
16 among other things its cost of service?

17 A Correct.

18 Q And included in that cost of service are employee  
19 costs; is that right?

20 A Included in the cost of service and the revenue  
21 requirements are employees' costs.

22 Q All right. And We Energies provided the Commission  
23 with data on the number of employees by both head  
24 count and FTE that it would need to provide service  
25 to its customers, right?

1 A I imagine there was a data request of that, and there  
2 was something in the revenue requirement, correct.

3 Q And, to your knowledge, were the employee numbers  
4 that were presented to the Commission as part of that  
5 proceeding accurate?

6 A To the best of my knowledge.

7 Q Okay. For the proposal that's now before the  
8 Commission, there is not a proposal to actually merge  
9 the utilities, We Energies and WPS; is that right?

10 A Correct.

11 Q So the workforce numbers, the employee numbers that  
12 We Energies presented in its rate case last fall are  
13 still accurate projections after this acquisition  
14 goes through; is that correct?

15 A They are still accurate projections for the test year  
16 2015.

17 Q Right. And they represent the number of employees  
18 that the company believes We Energies will need to  
19 provide reliable service; is that correct?

20 A It was a forecast of the number of employees that we  
21 established at the time of the -- of the filing.

22 Q Right. Has that changed since that time?

23 A I have not reviewed individual business units and  
24 what their current planning is, so I know it evolves  
25 depending upon the environment and what's going on.

1 Q Okay. And when will We Energies come back to the  
2 Commission with another rate case, what will trigger  
3 that?

4 A Our normal cycle is in 2017, but I don't know if  
5 there is a requirement or not to file at that time.  
6 That would be a legal question.

7 Q If it intends to change its rates, it would have to  
8 initiate a new rate case; is that right?

9 A If we'd want to change rates, correct.

10 Q Now, in this proceeding, WEC has proposed that any  
11 reductions of its represented workforce are only  
12 going to happen through attrition; isn't that right?

13 A That is correct.

14 Q And that's for a two-year period, right?

15 A Correct.

16 Q Okay. And that representation only -- or that -- I  
17 don't want to call it a representation. That  
18 proposal only applies to the represented employees,  
19 it doesn't extend to non-represented employees,  
20 right?

21 A That is correct.

22 Q Okay. And it's also true that the majority of We  
23 Energies employees are represented, right?

24 A That is correct.

25 Q Now, the company has not committed to making or

1 maintaining its workforce at a particular head count  
2 or FTE for two years, right?

3 A That is correct.

4 Q But it did make a commitment to maintain a particular  
5 number of FTE in the Illinois proceeding for the  
6 acquisition; isn't that right?

7 A Yes, it did.

8 Q Okay. And why is it that it committed to maintain a  
9 particular number of FTE in Illinois?

10 A Illinois is in a little different position than  
11 Wisconsin. We are actually moving the headquarters  
12 out of Illinois into Wisconsin. So there definitely  
13 is a different concern in Illinois versus Wisconsin.

14 Q And in moving that headquarters, that would actually  
15 reduce the number of employees in Illinois?

16 A I think that was a concern we were trying to address  
17 proactively.

18 Q And there's not a similar movement of an operation  
19 from Wisconsin to another state in this proceeding,  
20 right?

21 A That is correct, I believe.

22 Q I'd like to talk about attrition rate. I just have a  
23 couple of questions about this. And when I use that  
24 phrase, I mean the rate at which employees leave a  
25 company either through retirement or voluntary

1 departures or perhaps disability or other reasons.

2 Do you know what We Energies' attrition  
3 rate was last year?

4 A I do not know.

5 Q Do you have any idea if it was over 10 percent?

6 A I do not know.

7 Q Is it possible that attrition of the workforce over a  
8 period of two years could exceed 10 percent of its  
9 employees?

10 A I don't have enough familiarity of how big that  
11 number is or isn't.

12 Q Okay. Does the company contract for some of its  
13 labor, some of its workforce?

14 A Yes.

15 Q And is the cost of contracted labor a capitalized  
16 cost?

17 A Not all of it.

18 Q Okay. Can you explain under what circumstances it is  
19 capitalized versus when it's not?

20 A It would depend upon the specific type of work that  
21 the individual is working on.

22 Q Okay. So depending on if it's a -- does it depend on  
23 if it's a project for which the company is looking at  
24 it as capitalized?

25 A It would have to be looked at from the accounting

1 rules to qualify as a capital project or is it an O&M  
2 expense or is it a maintenance. I don't -- each  
3 individual item is different.

4 Q Is the cost of contracted labor generally higher than  
5 the cost of the employees who are hired and employed  
6 by the company?

7 A I do not have that information to know.

8 Q Okay. If the transaction is approved, the company  
9 could, under the condition that it has proposed, it  
10 could reduce its workforce through attrition in that  
11 first two years; is that right?

12 A Through attrition, correct.

13 Q And if it does have attrition in that represented  
14 workforce, it could contract out work that's  
15 currently done by represented employees; is that  
16 right?

17 A That could be possible.

18 Q Could it also divert some of that work to  
19 non-represented employees?

20 A I don't know what the requirements are with the union  
21 contract and the contracts.

22 Q Do you think that would depend upon the collective  
23 bargaining agreement?

24 A Yeah. I just don't know if there is something in  
25 there.



1 Q Okay. And does the company have a plan for how it  
2 will manage attrition after this acquisition is  
3 approved, assuming it's approved?

4 A No, I'm not aware of any plan.

5 Q No plan's been developed at this point in time. I  
6 don't have any more questions.

7 EXAMINER NEWMARK: Let's go off the  
8 record.

9 (Discussion off the record.)

10 EXAMINER NEWMARK: Mr. Heinzen, any  
11 questions of Mr. Lauber?

12 MR. HEINZEN: Yes, thank you, Your Honor.

13 CROSS-EXAMINATION

14 BY MR. HEINZEN:

15 Q Mr. Lauber, Steve Heinzen, Wisconsin Industrial  
16 Energy Group. Just a few questions for you this  
17 afternoon, I think. I just -- if you could turn to  
18 your direct testimony beginning at page 6.

19 And Ms. Loehr asked you some questions  
20 about the benefits of the transaction for customers,  
21 and I'm just going to ask you about the first one  
22 that you're identifying here which is to have  
23 Integrys Business Support, or what comes out of that  
24 after the acquisition if it's approved, to be the  
25 centralized service company for both -- well,

1           probably for all the regulated utilities that are  
2           under WEC; is that right?

3       A     Yes.

4       Q     I'm just curious, is it possible right now for WEPCo  
5           to contract directly with IBS for those services  
6           without having to be acquired?

7       A     I don't know what the opportunities are.

8       Q     Okay. If you could turn to page 7 of your direct  
9           testimony. I should first ask, were you here today  
10          when Mr. Reed gave testimony from the stand?

11      A     I was here for the part I could be here.

12      Q     You were not here for all of his testimony?

13      A     No.

14      Q     Okay. Are you familiar with his -- have you read  
15          through his testimony?

16      A     Yeah. I read through some of it, yes.

17      Q     One of the questions I have is with respect to this  
18          sentence here, "Because the transaction is not  
19          motivated by a desire to immediately or even in the  
20          medium term significantly reduce employee head count,  
21          customers should not expect to see rate --" sorry,  
22          "-- see reductions in rates at least in the short  
23          term." Did I read that correctly?

24      A     Where are you reading?

25      Q     I'm sorry, direct page 7 beginning at line 6. It's

1 the first sentence beginning at line 6.

2 A Okay. Yep.

3 Q What I gather from this line is that at least at the  
4 moment, WEC anticipates that -- well, there is a  
5 direct correlation here between reduction in employee  
6 head count and customers seeing a reduction in rates;  
7 am I reading that correctly?

8 A But that would be one of the elements that you  
9 would -- if you wanted a reduction in rates, you may  
10 have to have a significant reduction in employee  
11 count.

12 Q And in this sentence, are you not saying that one of  
13 the reasons why customers will not see a reduction in  
14 rates in the short term is because WEPCo, WEC, does  
15 not have a current desire or interest or plan to  
16 reduce employee head count?

17 A We do not have an immediate desire to reduce the head  
18 counts to develop a correct and immediate type of  
19 savings, because it's a long-term forecast.

20 Q Do you currently have an interest in reducing head  
21 count beyond year two in order to capture synergy  
22 savings?

23 A We will have to look at opportunities and what a  
24 transition plan going forward would look like,  
25 transition cost and where potential benefits would

1 be.

2 Q Are you familiar with Mr. Reed's statement in at  
3 least one of his discovery responses, which we can  
4 bring out now if you need to, that he opines that  
5 there will be a 3 to 5 percent savings between a  
6 five- and ten-year period of time?

7 A I'm aware --

8 MR. WINTERS: Objection, do you have his  
9 actual language?

10 MR. HEINZEN: Yeah, sure. It's Reed 11.

11 EXAMINER NEWMARK: Reed 11?

12 MR. HEINZEN: Reed 11, yes.

13 Q I'm just going to -- do you have a copy of Reed 11?

14 A I do not.

15 MR. HEINZEN: May I approach?

16 EXAMINER NEWMARK: Yeah.

17 BY MR. HEINZEN:

18 Q I'm just going to -- why don't you to have a moment  
19 to look at this. And I'm just going to -- have a  
20 moment first to look at it.

21 A Okay. Okay.

22 Q I'll ask first if you --

23 A The chart too?

24 Q I'm sorry?

25 A The chart too?

1 Q No, just the first page of the response. So this is  
2 a document that's identified as Reed Exhibit 11. Are  
3 you -- have you read that response which is a data  
4 request response to PSCW 1.015 before?

5 A I may have. I don't remember.

6 Q What I would like you to turn your attention to is  
7 the section in the response itself, beginning based  
8 on this analysis.

9 A Okay. Based on this analysis. Do you want me to  
10 read it?

11 Q Sure.

12 A "Based on this analysis, Mr. Reed has concluded that  
13 the transaction is likely to generate net savings in  
14 the range of 3 to 5 percent of non-fuel O&M of the  
15 combined company after a five- to ten-year ramp-up  
16 period relative to what non-fuel O&M costs for the  
17 companies would have been absent the transaction."

18 Q And that's all I have to show you there. Is that  
19 statement consistent with what you understand  
20 Mr. Reed's testimony to be in this case?

21 A Yeah.

22 EXAMINER NEWMARK: Can you leave that with  
23 the witness.

24 MR. HEINZEN: I'm sorry?

25 EXAMINER NEWMARK: Can you leave that with

1 the witness.

2 MR. HEINZEN: Oh, sure, sure.

3 Q In -- I'm going to return to direct WEC Lauber 7 now,  
4 in that same -- lines 6, 7 and 8; and you note that  
5 the transaction is not motivated by a desire to  
6 immediately or even in the medium term significantly  
7 reduce employee head count.

8 And what -- how do you define immediately  
9 and how do you define medium term?

10 A Well, immediately, we're not looking in the first  
11 couple years, it's more through attrition in longer  
12 term. Medium term would be in that five-year time  
13 frame.

14 Q And would longer term fit into the five to ten years?

15 A That would be a longer basis, correct.

16 Q And is there some likelihood that the way in which  
17 WEC will see the 3 to 5 percent synergy savings,  
18 which Mr. Reed doesn't believe will actually appear  
19 between -- until between five and ten years, is  
20 related pretty clearly to reduction in workforce?

21 A Not necessarily over the three to five years. It  
22 could be a variety of items.

23 Q Between the five and ten --

24 A I mean the five to ten years.

25 Q But that would be a component of it?

1 A It would be a component, but not necessarily  
2 everything.

3 EXAMINER NEWMARK: Would it be a majority  
4 of the savings?

5 THE WITNESS: I would have to -- we'd have  
6 to look at what the future transition cost and  
7 things could be -- what it could be. It could be  
8 from a variety of items.

9 BY MR. HEINZEN:

10 Q Just to I guess be clear, it's your understanding  
11 that customers, ratepayers in Wisconsin will not see  
12 the benefits of this acquisition fully until  
13 somewhere between five and ten years from when the  
14 acquisition if it's approved closes, right?

15 A The five to ten years would be the full run rate. In  
16 the next test year, we'll be projecting future net  
17 savings, projects, et cetera.

18 Q And WEPCo's I guess commitment not to reduce  
19 workforce is one that lasts for two years?

20 A Correct.

21 MR. WINTERS: Just a clarification, I  
22 think the commitment was with reference to  
23 represented labor only.

24 MR. HEINZEN: I'm sorry?

25 MR. WINTERS: The two-year commitment was

1 with respect to represented labor only.

2 THE WITNESS: And through attrition.

3 BY MR. HEINZEN:

4 Q Okay. It certainly has no commitment with respect to  
5 workforce year 5, 6, 7, 8, 9, 10 and so on?

6 A Nothing in this commitment says anything about that.

7 Q Did you read Mr. Reed's surrebuttal testimony?

8 A I have read it.

9 Q Do you have a copy of it with you?

10 A I do not have it up here.

11 MR. HEINZEN: Do you guys have a clean  
12 copy of Reed surrebuttal?

13 (Document tendered.)

14 Q I'm just going to hand you a copy of Mr. Reed's  
15 surrebuttal testimony. I'll tell you what lines to  
16 take a look at in just a moment. My line of  
17 questions right now have to do with transition costs.  
18 If you take a look at Reed's testimony at line -- I'm  
19 sorry, at page 19 to begin with; and it's lines -- I  
20 guess we should start with the question. It's at 18,  
21 the question that begins line 21.

22 A So page -- what page again?

23 Q Sorry. It's surrebuttal WEC Reed 18, and the  
24 question that begins at line 21. If you would read  
25 the question and the answer and then I'm going to ask



1           you a question about the answer.

2           A     Yes.

3           Q     Okay. So what -- this has -- this line of  
4               questioning, as I said, has to do with the deferral  
5               of transition costs. Mr. Reed says in his  
6               surrebuttal, "It is my understanding that no deferral  
7               of transition costs could occur without approval by  
8               the Commission and WEC has not sought such an  
9               approval, therefore this is not an issue in this  
10              proceeding."

11                         Is -- do you believe that Mr. Reed's  
12              understanding is correct?

13          A     We have not sought this in this proceeding for any  
14               O&M costs incurring at this time until the next rate  
15               case where the Commission may recommend deferral, may  
16               request deferral at that time for a future cost to  
17               better match the savings.

18          Q     So it is -- just to be clear on this. WEC is not  
19               committing as part of this acquisition that it will  
20               not seek to defer transition costs?

21          A     It's not seeking to defer transition costs during the  
22               next -- until the next rate case. It is not seeking  
23               it during this time period.

24          Q     So that's -- that's a well taken point. Any  
25               transition costs that WEC incurs between now and the

1 date that new rates go into effect are costs that WEC  
2 will not seek to recover at any time?

3 A We gotta be careful, we need to look at two pieces.  
4 If it's an O&M cost and directly in the GAAP  
5 accounting says it's O&M, we will not be seeking that  
6 cost. If it's a capital cost and proper GAAP  
7 accounting says you need to capitalize it, for  
8 instance, a new software that there's potential  
9 benefits going forward, we would follow the  
10 accounting policy. They would not seek any recovery  
11 in that period before the test year, and then the  
12 test year would be part of the test year.

13 Q Which is to say if there was some capital expense  
14 that, just for an example, was going to be recovered  
15 in rates, traditionally would be covered in rates  
16 over a 20-year period. The -- until you had rates  
17 change, let's say it's two years from the time of  
18 acquisition until rates changed, that first two years  
19 of the 20 years would not be recovered in rates, but  
20 WEC would seek recovery of the next 18 years?

21 A Correct.

22 Q Okay. Under that example.

23 A Yes, with the associated benefits.

24 Q So assuming that WEC is going to file a rate case  
25 for new rates -- file its rate case in 2016 for

1 new rates to take effect in 2017. It has O&M  
2 transition-related costs, but no synergy savings --  
3 sorry, let me put it this way. It has O&M-related  
4 transition costs in the year 2017, but it does not  
5 have any synergy savings related to those transition  
6 costs in 2017. Is WEC committing not to seek  
7 deferral of those transition costs?

8 A We would look at the long-term savings or cost  
9 avoidance of those costs and look at the life of  
10 that; and if there is savings in future years, you  
11 look at the net present future and say the net  
12 savings would be there. The timing would be in that  
13 17 test year, and the Commission would have an  
14 opportunity to say, no, let's match the savings and  
15 the costs and spread it out over when the savings  
16 would come.

17 Q So you anticipate right now that WEC would be seeking  
18 to recover all of the expenses that are related to a  
19 transition cost of that nature?

20 A Yep, and the customers would get all of the savings  
21 related to that also in future years.

22 Q In that then, would you turn to surrebuttal WEC Reed  
23 19, that's the page, and then beginning on line 22.  
24 And Reed states, "In addition, no transition costs  
25 will go into rates unless they produce savings that

1 exceed those costs." And did I read that correctly?

2 A Yep.

3 Q Okay. When I read that, I understood that to mean  
4 that WEC would -- there would have to be savings  
5 before WEC would recover the transition costs. And I  
6 think that my reading is different from what you had  
7 just told us how WEC would approach recovering  
8 transition costs.

9 A Yeah. If you look at the life of the project, there  
10 is net savings. Okay. So there is net savings and  
11 it would produce savings that exceed the costs. And  
12 the Commission actually could do some unique  
13 accounting to spread that over the period so that  
14 nothing would get into rates until the savings were  
15 there.

16 Q Which is to say that WEC would -- what WEC would be  
17 looking for is to have the Commission defer the  
18 transition costs until the savings that were  
19 associated with those transition costs were part of  
20 the -- were part of a test year?

21 A It would be their choice.

22 MR. HEINZEN: I don't have any further  
23 questions. Thank you.

24 EXAMINER NEWMARK: All right. Commission  
25 staff?

## CROSS-EXAMINATION

BY MR. CHASCO:

Q Just a couple questions, Mr. Lauber. Can you provide an update on the Michigan asset transaction? I'm not asking for substantive, but just an update on the timing of consummating the definitive agreements with UPPCO.

A Yeah. The nonbinding agreement has several parts to it. My understanding, I'm not really into the details of the transaction, but they're still working on that. But that just hasn't been completed.

Q Okay. You have previously indicated that you would expect We Energies or WEPCo to apply for permission under the buy/sell docket in early March shortly after those agreements are finalized. Given that they're still being finalized, do you have any estimate of when that application might be filed?

A No. If and when they get finalized, I do not have the time frame of when that will be.

MR. CHASCO: Okay. Thank you.

## EXAMINATION

BY EXAMINER NEWMARK:

Q Okay. Mr. Lauber, I had a few clarification questions. First of all, I just wanted to make sure, when we're talking about deferral, we keep linking

1           that up to a rate case. But as far as I understand  
2           Commission practice, a utility can request deferral  
3           and get deferral approval outside of a rate case. So  
4           is it also a possibility, would the company be  
5           considering requesting deferrals, you know, on a year  
6           outside of a test year, a year outside of a rate  
7           case, or only within a rate case filing?

8       A    Only -- and particularly related to this, only in a  
9           rate case filing.

10      Q    Okay. Good. And from what I understand what  
11           everyone's saying about the 3 to 5 percent savings,  
12           that's the company -- I realize Mr. Reed calculated  
13           that, is that what happened in the course of the  
14           proceeding, but that's the position of the company,  
15           right, that the company expects to get 3 to 5 percent  
16           savings?

17      A    Based on Mr. Reed's -- based on Mr. Reed's  
18           understanding of other utilities, he thinks it's a  
19           reasonable amount. We have not done a calculation.  
20           I do not know what the number will or -- will be.

21      Q    Okay. But that's the amount of savings that the  
22           company is expressing to the Commission as what's in  
23           the best interests of, you know, the standard utility  
24           customers and public --

25      A    Based on his knowledge and working with a variety of

1 different mergers or acquisitions, there is -- that  
2 is what he has seen as reasonable.

3 Q And the company agrees with him?

4 A That it's a reasonable calculation.

5 Q Okay. So I just was curious because Mr. Reed, we  
6 have this Reed 11; and on the back is a chart, and I  
7 think, if I understand this chart right from what was  
8 discussed before, that the table I guess says, it's  
9 looking at what companies have had -- or when they  
10 were filing for their merger cases, they were  
11 expecting this -- these percentages of synergy  
12 savings on the left-hand table, I guess.

13 Just let me ask the crowd. Am I getting  
14 that right? Am I on the right track there? That's  
15 the proposed savings that was coming into the cases?

16 MR. WINTERS: Yeah, I mean, I'm just --  
17 I'm just interpreting it sort of as it reads there.  
18 These were announced synergies. That sounds to me  
19 like those were anticipated or estimated synergies.  
20 And just a clarification to the question you asked  
21 him, this 3 to 5 percent, as is the case with these  
22 two tables here, these are savings as a percentage  
23 of combined non-fuel O&M. This does not exhaust all  
24 the possible savings that could come out of the  
25 transaction potentially.

1 BY EXAMINER NEWMARK:

2 Q So is that the same kind of -- let me ask the  
3 witness. So in terms of the savings that was  
4 announced on -- by the utilities on this chart and  
5 the savings that the company has been -- has  
6 represented through Mr. Reed, that 3 to 5 percent  
7 savings, those are comparable numbers?

8 A I am not familiar with this chart, so I do not know  
9 what these percentages are representing.

10 Q Okay. Well, it's combined non-fuel O&M; and the  
11 percentage that the company today is proposing is  
12 combined O&M --

13 A Yeah, and I don't know, is this average or how many  
14 years -- I just don't know enough details to really  
15 put any color to it.

16 Q Okay. So what about the top line of that table, the  
17 proposed merger with Northern States Power and  
18 Wisconsin Electric, were you familiar with that  
19 proposal?

20 A That was in the early -- or the late '90s. I was not  
21 involved in that.

22 Q You were not involved, okay. And the WPS Resources  
23 Peoples Energy proposal, do you know what the 12  
24 percent would represent in that case?

25 A No. And that's from Integrlys' side.



1 Q Right. But it's a public --

2 A Yeah.

3 Q It's a public announcement.

4 A I do not -- yeah.

5 Q Okay. Well, that's --

6 A I apologize. I just don't know what it is.

7 Q That's fine. Thanks. All right. Oh, one more  
8 question. I just was wondering in terms of the -- we  
9 were talking about workforce attrition. I just  
10 wanted to match that up with our standard. How is  
11 workforce attrition, if it is, a benefit to a utility  
12 customers and the public? Or workforce -- oh, the  
13 reduction of workforce -- of workforce. How is that  
14 a benefit to those three entities in our standard?

15 A The reduction of -- potential reduction of employees  
16 through attrition?

17 Q Actually after that, after the two years.

18 A After the two years, we have not identified what will  
19 or won't happen. We just made a commitment for two  
20 years.

21 Q Right. But do you expect to have workforce  
22 reductions after the two years?

23 A I do not know what's going to happen in the next --  
24 after the two years. We have no -- I have no plans  
25 that I'm aware of.

1 EXAMINER NEWMARK: Okay. That's all I  
2 have.

3 MR. WINTERS: No redirect.

4 EXAMINER NEWMARK: No redirect. Okay.  
5 Thanks. You're excused.

6 (Witness excused.)

7 EXAMINER NEWMARK: Who's next?

8 MR. WILSON: Staff?

9 EXAMINER NEWMARK: Mr. Hahn, I think we're  
10 going to call him.

11 (Teleconference established with  
12 Mr. Hahn.)  
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1 RICHARD S. HAHN, CUB WITNESS, DULY SWORN

2 DIRECT EXAMINATION

3 BY MR. WOYWOD:

4 Q Mr. Hahn, this is James Woywod. Can you hear me?

5 A (No response.)

6 (Pause in proceedings.)

7 Q Mr. Hahn, this is James Woywod. Can you hear me?

8 A Sort of.

9 Q Okay. If you don't hear something or can't  
10 understand a question, just let me know and I'll  
11 repeat it and raise my voice as necessary.

12 A Okay. Thank you.

13 Q Did you prepare and cause to be filed in this  
14 proceeding direct testimony, rebuttal testimony, and  
15 eight exhibits?

16 A Yes.

17 Q And is the information therein true and correct to  
18 the best of your knowledge?

19 A Yes.

20 Q Have you reviewed the surrebuttal testimony filed by  
21 WEC in this proceeding on March 6, 2015?

22 A Yes, I did.

23 Q And specifically I'm going to refer to surrebuttal  
24 WEC Reed 9, lines 14 to 18, where the witness states,  
25 I'll quote, "CUB witness Hahn asserts that one way to

1           measure an appropriate level of benefits for  
2           Wisconsin ratepayers is that they should be at least  
3           as great as the benefits to lawyers and investment  
4           bankers of consummating the transaction (which are  
5           estimated to be 38 million, not \$236 million as  
6           suggested by Mr. Hahn)."

7       A    Yes, I recall reading that.

8       Q    Okay. And do you have any response to that  
9           testimony?

10      A    Very briefly. My use of the \$236 million is for the  
11           entire transaction costs, which includes legal and  
12           investment bankers' fees among other things. That  
13           number is based on a data response from the applicant  
14           as I explained in my direct testimony. My use of  
15           this figure is not the payments only to lawyers and  
16           investment bankers, but the entire transaction cost.

17      Q    Mr. Hahn, does the response you just provided also  
18           apply to the statement found at surrebuttal WEC  
19           Leverett 11, lines 6 to 9?

20      A    Yes. My response to Mr. Leverett's testimony on this  
21           point is the same as my response to Mr. Reed that I  
22           just gave.

23      Q    Next, have you reviewed Mr. Lauber's testimony at  
24           surrebuttal WEC Lauber 10, line 20, through  
25           Lauber 11, line 3, stating that the costs of the

1 transaction for WEC includes \$1.5 billion in new  
2 debt?

3 A Yes. I have read that.

4 Q Okay. And regarding that testimony, do you have a  
5 response?

6 A Again, briefly, my reference to the 1.7 billion in  
7 new debt was based upon information WEC provided to  
8 me in a data request response. Last week, the  
9 company told me that it is planning to use  
10 approximately \$200 million in existing cash to  
11 partially fund the transaction, reducing the level of  
12 new acquisition debt to 1.5 billion from the  
13 1.7 billion provided previously.

14 However, whether the figure is 1.7 billion  
15 or 1.5 billion in new acquisition debt, my  
16 conclusions regarding the potential effects on WEC on  
17 taking on that debt have not changed.

18 Q Have you also reviewed surrebuttal WEC Lauber 6,  
19 lines -- excuse me, line 14, to Lauber 7, line 4,  
20 addressing a condition proposed by you that the  
21 Commission deny direct and indirect recovery of the  
22 acquisition premium?

23 A Yes. I recall that testimony.

24 Q And how about surrebuttal WEC Reed 10, lines 12 to  
25 13, stating, quote, "WEC has committed that it will

1 not seek recovery of the acquisition premium through  
2 any means"?

3 A Yes, I recall that.

4 Q And do you have a response to both Mr. Lauber's  
5 testimony as I just referenced as well as Mr. Reed's  
6 testimony?

7 A Yes, very briefly. Virtually all of WEC's  
8 post-transaction subsidiaries are regulated entities,  
9 such as Wisconsin Electric Power, Wisconsin Gas,  
10 American Transmission Company, and after the merger,  
11 if the merger is approved, of the Integrys companies  
12 such as Wisconsin Public Service. So these are the  
13 only sources of funds to the parent company WEC.  
14 Neither WEC nor Integrys have large unregulated  
15 subsidiaries from which it could extract funds.  
16 Therefore, there is nowhere else for WEC to obtain  
17 funds to pay for the acquisition premium other than  
18 through the regulated subsidiary utilities, ATC's  
19 customers which are these same utilities; and  
20 ultimately the Wisconsin ratepayers are the source of  
21 funds for those entities.

22 Q I'll also direct your attention to surrebuttal WEC  
23 Lauber 15, line 21, through Lauber 16, line 10,  
24 regarding tracking and recovering transition costs.

25 A Yes, sir. I recall reading that.

1 Q And do you have any response to that?

2 A I just want to clarify that amending my  
3 recommendation on recovery of transition costs to be  
4 consistent with Ms. Bartels' direct testimony in no  
5 way should be interpreted as suggesting that it is  
6 appropriate for post-acquisition WEC in recovery of  
7 transition costs before the savings have actually  
8 occurred.

9 MR. WOYWOD: Thank you. He is available  
10 for cross.

11 EXAMINER NEWMARK: Okay. Questions? We  
12 covered that Schott exhibit, right? He doesn't need  
13 to --

14 MS. LOEHR: I just talked with Mr. Jackson  
15 about it, and the company has agreed to stipulate  
16 in, when we get a copy of it, exactly which  
17 presentation, as Exhibit CUB Hahn 9.

18 (CUB-Hahn-9 designated for delayed  
19 receipt.)

20 EXAMINER NEWMARK: Okay. So any  
21 cross-examination?

22 CROSS-EXAMINATION

23 BY MR. WILSON:

24 Q Mr. Hahn, this is Joe Wilson on behalf of WEC. Are  
25 you involved in any capacity in the PEPCO-Exelon

1 merger proceeding?

2 A No, sir.

3 MR. WILSON: Okay. Nothing further.

4 THE WITNESS: I'm sorry. I didn't hear  
5 that.

6 MR. WILSON: Nothing further. Thank you.

7 EXAMINER NEWMARK: Any other questions?  
8 Okay. I did want to go over something with your  
9 testimony, Mr. Hahn. And I just -- I was curious  
10 because originally I think -- you explained it  
11 today, but originally you filed your direct  
12 testimony under confidential cover. But I believe  
13 some of those numbers have been discussed now in  
14 public.

15 So I was wondering if you could re-file  
16 that confidential version; if something still needs  
17 to remain confidential, just file a new version with  
18 that testimony highlighted in the confidential and  
19 redacted in the public. This way there won't be any  
20 confusion as to what's really confidential when the  
21 Commissioners read the record.

22 THE WITNESS: Okay. So I should re-file  
23 my direct testimony and any figure or intimation  
24 that was deemed to be confidential at the time that  
25 has been disclosed publicly is no longer



1 confidential, I should un-redact that?

2 EXAMINER NEWMARK: That's right. And also  
3 take off the highlights for the confidential  
4 version.

5 THE WITNESS: Yes, sir. I'll be happy to  
6 do that.

7 EXAMINER NEWMARK: Great. Thanks. Okay.  
8 Any redirect? Great. That's all we need from you.  
9 Surprise, surprise.

10 THE WITNESS: Thank you, sir. Yeah, well,  
11 have a good day then.

12 EXAMINER NEWMARK: All right. Take care.

13 (Witness excused.)

14 EXAMINER NEWMARK: All right. So we're up  
15 to staff.

16 MR. HEINZEN: Have we agreed, I guess, on  
17 everybody else affidavit?

18 EXAMINER NEWMARK: So far I think so.  
19 That's where we're at.

20 MR. HEINZEN: So Mr. Kollen's testimony by  
21 affidavit. I guess one other housekeeping, real  
22 quickly. Where were we with Lauber, I'm not sure  
23 what his last exhibit was, so that the delayed  
24 exhibit that would have responses to the discovery  
25 request. Is it 11? I know that, Kira, you had more

1           than one --

2                       EXAMINER NEWMARK:  Let's go off the  
3           record.

4                       (Discussion off the record.)

5                       (Lauber Exhibit 15 was designated for  
6           delayed receipt.)

7                       EXAMINER NEWMARK:  So we have staff  
8           witnesses still.  I did want to mention just a  
9           follow-up with my e-mail with the corrections.  I  
10          did have corrections for Lowry, just to take those  
11          highlights off of a hyperlink.  Oh, Hahn also had a  
12          hyperlink on rebuttal, so he has to file everything  
13          again.  Yeah.  And Hunger was mentioned before.  
14          Okay.

15                      MR. CHASCO:  I believe we have -- we'll  
16          start with Ms. Bartels.

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1 JODEE J. BARTELS, STAFF WITNESS, DULY SWORN

2 DIRECT EXAMINATION

3 BY MR. CHASCO:

4 Q Good afternoon, Ms. Bartels. Have you prepared or  
5 caused to be prepared direct, rebuttal and  
6 sur-surrebuttal in this proceeding?

7 A Yes, I did.

8 Q Do you have any corrections to that testimony?

9 A I have one correction to my sur-surrebuttal. On  
10 page 2, line 14, that "precede" should say "proceed."

11 Q Thank you. If I were to ask you those questions  
12 today, would your answers -- or is the information in  
13 that testimony true and correct to the best of your  
14 knowledge?

15 A Yes, it is.

16 MR. CHASCO: I have nothing further.

17 EXAMINER NEWMARK: Questions?

18 CROSS-EXAMINATION

19 BY MR. WILSON:

20 Q I have just one line of questions with respect to  
21 your sur-surrebuttal. On page 6, line -- beginning  
22 at line 9, you discuss items 86 and 87. These have  
23 to do with recovery of transition costs. And you  
24 note that you don't quite understand why we're not in  
25 agreement on number 87; is that right?

1 A Correct.

2 Q On 87, I'd just like to point out to you to see if we  
3 can get to agreement, that in Mr. Lauber's rebuttal  
4 testimony with respect to this condition, he said  
5 that WEC would accept it so long as the company only  
6 had to submit the requested information on severance  
7 and early termination costs for which it was seeking  
8 recovery in rates. So that was the clarification.

9 Are you willing to agree with the company  
10 on this condition with that clarification?

11 A I don't believe so. I believe my testimony is I want  
12 to -- that the Commission should see all those  
13 transition costs.

14 MR. WILSON: I tried. Thank you. Nothing  
15 further.

16 EXAMINER NEWMARK: Okay. Other questions?

17 CROSS-EXAMINATION

18 BY MS. LOEHR:

19 Q On the subject of transition costs, were you present  
20 for Mr. Lauber's testimony earlier today?

21 A Yes, I was.

22 Q And did you hear his response regarding the company's  
23 position with respect to my hypothetical assuming  
24 costs -- transition costs being incurred and  
25 requested for test year 2017 when savings were not

1 estimated to occur until the year 2020?

2 A Yes.

3 Q Do you have any response to that?

4 A I believe he clarified it as to whether or not it was  
5 a capital or an O&M. So could we for purposes of my  
6 answer say O&M?

7 Q Yes.

8 A The way I understood Mr. Lauber's testimony on  
9 transition costs, that they were -- it was leaving it  
10 up to the Commission to determine whether or not they  
11 wanted to request the company to defer those costs or  
12 defer the savings.

13 Q Okay. And if the Commission were going to make such  
14 a determination regarding deferral, is one aspect of  
15 that going to be whether there should be carrying  
16 costs?

17 A It would be -- yes, it should be an aspect, and my  
18 recommendation would be zero carrying costs.

19 Q So under the hypothetical scenario that I put forward  
20 to Mr. Lauber, if the issue of deferral came up of  
21 those transitions costs, you would recommend no  
22 carrying costs when the costs are being incurred  
23 before the savings can be expected?

24 A That would be one option that I would recommend. My  
25 trouble with this whole line of questioning on

1 transition costs is that future savings are hard to  
2 estimate, hard to predict and hard to determine when  
3 you've actually received them.

4 So the Commission could ask, in my  
5 opinion, to defer both the costs and the savings 'til  
6 you get them to a period where they match, definitely  
7 not out 20 years. The longer you go out, the more  
8 difficult it's going to be to determine whether those  
9 savings actually come from the merger or come from  
10 something else. Or the Commission could take the  
11 company up on their offer and the Commission could  
12 not request deferral and tell the company that they  
13 had to eat those costs in the rate case they were  
14 incurred in. And under that assumption, then the --  
15 the ratepayers would be at risk of ever finding those  
16 savings; but if they never occur, you know, we're not  
17 out anything.

18 Q So are all of those options available to the  
19 Commission under your proposed condition in this case  
20 regarding transition costs?

21 A That would be my interpretation of that condition.

22 MS. LOEHR: That's all I have.

23 EXAMINER NEWMARK: Other questions?

24 Redirect?

25 MR. CHASCO: No.

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EXAMINER NEWMARK: Okay. You're excused.

Thanks.

(Witness excused.)

1 LOIS HUBERT, STAFF WITNESS, DULY SWORN

2 DIRECT EXAMINATION

3 BY MR. CHASCO:

4 Q Good afternoon, Ms. Hubert. Did you file or cause to  
5 be filed direct, rebuttal and sur-surrebuttal along  
6 with associated exhibits in this proceeding?

7 A Yes, I did.

8 Q And is the information in that testimony and exhibits  
9 true and correct to the best of your knowledge?

10 A To the best of my knowledge.

11 MR. CHASCO: Thank you. Nothing further.

12 EXAMINER NEWMARK: Okay. Any questions?

13 CROSS-EXAMINATION

14 BY MR. WILSON:

15 Q Good afternoon, Ms. Hubert. Joe Wilson on behalf  
16 WEC. Nice to see you again. On page 4 of your  
17 sur-surrebuttal, at the top, you state that it  
18 appears that the parties are not in agreement on  
19 issue 60 which has to do with employee head count; is  
20 that right?

21 A To my knowledge, the last I heard, that there was not  
22 an agreement with the union. And I do not take a  
23 position, especially if there's not an agreement with  
24 the union.

25 Q So the purpose of your inclusion of the two-year



1 employment commitment was just to restate the  
2 commitment that WEC was making in its application?

3 A Correct. Correct.

4 Q And would you agree that the union's proposal with  
5 respect to head count is covered by item 57 of  
6 Exhibit WEC Lauber 4?

7 A Let me just... You said 57?

8 Q Yeah, item 57, actually.

9 A I'm looking at 57 on 4, and it says opposed with  
10 explanation. So I think if you really want to know  
11 if the union is in agreement with you, I think you  
12 have to ask them, not me.

13 Q Right. And that wasn't my question. It's just that  
14 there are two separate conditions with respect to  
15 employee head count; one is a five-year condition and  
16 one is a two-year condition. The five-year condition  
17 is covered in 57. The two-year condition is covered  
18 in 60. That's all I'm asking. Is that correct?

19 A The problem with -- I'm not -- the problem with  
20 saying yes and no is the fact that both of them have  
21 to do with employment. And, again, this is a union  
22 issue; and if you want -- if you want the Commission  
23 to say there is no disagreement, I think you need to  
24 have the union come forward and say we are not in  
25 disagreement.

1 Q Understood. Okay. A little further down on page 4  
2 of your sur-surrebuttal, you discuss dividend  
3 restrictions beginning in your answer on line 15,  
4 right?

5 A Yes.

6 Q And just to be clear, your position is that the  
7 dividend restrictions you're proposing in item 36 are  
8 different from dividend restrictions imposed in the  
9 companies' last rate cases; is that correct?

10 A It is different.

11 Q And it's also -- the dividend restriction proposed in  
12 item 37 is also different from the dividend  
13 restriction imposed in the companies' last rate  
14 cases; is that right?

15 A The dividend restriction in number 37 is just minor,  
16 generally a conforming of language and removal of the  
17 1.3 percent increase allowed for dividends for  
18 WPSCR -- or for WPSC.

19 MR. WILSON: That's all I have. Thanks.

20 EXAMINER NEWMARK: Okay. Other questions?  
21 Redirect?

22 MR. CHASCO: None.

23 EXAMINER NEWMARK: Okay. You're excused.

24 Before you go, though, we do have -- I put you down  
25 for the public comments exhibits, so there will be a

1 Hubert 3.

2 THE WITNESS: There will be a Hubert 3, 4  
3 and 5.

4 EXAMINER NEWMARK: Okay. Right. Let's  
5 make that clear then. So we can make the public one  
6 the last one, whichever one. So you have a -- what  
7 is 3 and 4?

8 THE WITNESS: 3 is the information on the  
9 Chicago main replacement program. And 4 is the copy  
10 of the bylaws for ATC.

11 EXAMINER NEWMARK: Okay. 5 will be public  
12 comments. Okay. All right. That's it. You're  
13 excused.

14 (Hubert Exhibits Nos. 3, 4, 5 designated  
15 for delayed receipt.)

16 (Witness excused.)

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1 CHRISTOPHER W. LARSON, STAFF WITNESS, DULY SWORN

2 DIRECT EXAMINATION

3 BY MR. CHASCO:

4 Q Good afternoon, Mr. Larson. Did you prepare or cause  
5 to be prepared testimony and exhibits in this  
6 proceeding including sur-surrebuttal?

7 A Yes.

8 Q And is the information in that testimony and exhibits  
9 true and correct to the best of your knowledge?

10 A Yes, it is.

11 MR. CHASCO: Nothing further.

12 EXAMINER NEWMARK: You're on the list.

13 CROSS-EXAMINATION

14 BY MR. JACKSON:

15 Q Good afternoon, Mr. Larson.

16 A Good afternoon.

17 Q I want to ask you questions about the last portion of  
18 your sur-surrebuttal that you provided today, the  
19 suggestion that the Commission set or determine an  
20 amount of synergy savings if any to include in WPSC's  
21 2016 revenue requirement. And this relates to the  
22 likelihood that WPSC is going to file a rate case for  
23 the 2016 test year, correct?

24 A Yes.

25 Q Now, I think I've been pretty thoroughly through the

1 record and I don't see anything in the record as it  
2 sits today that provides a number, synergy savings  
3 number for the new combined company that would follow  
4 the merger for 2016. Is that correct?

5 A In Mr. O'Donnell's direct testimony, he provides a  
6 table that shows what a 2 to 4 percent -- 2 to 4  
7 percent of non-fuel O&M expenses are for the various  
8 utilities that are part of this transaction, and that  
9 does include Wisconsin Public Service Corporation.

10 Q Okay. So your proposal are to be based on the  
11 assumption that the combined company would accomplish  
12 a 2 to 4 percent non-fuel O&M reduction in the first  
13 year following the merger?

14 A Yes.

15 Q And how would you calculate -- oh, and I take it you  
16 would -- then you would also assume that that same  
17 percentage was accomplished at each of the  
18 subsidiaries of the new combined company?

19 A Yes. That is correct.

20 Q Were you here for Mr. Reed's live testimony earlier  
21 today?

22 A Yes.

23 Q I believe he testified that in the first year or two  
24 after a merger of this kind, net synergy savings are  
25 typically negative. Were you here for that

1 testimony?

2 A Yes.

3 Q Okay. And if that were the case in this merger,  
4 would it be your proposal that WPSC's 2016 revenue  
5 requirement be increased to reflect those negative  
6 savings in the first year?

7 A Are you asking a hypothetical? So I should --

8 Q Sure.

9 A -- assume that that should be net costs --

10 Q Yes.

11 A -- in the transaction? No, I think my recommendation  
12 there would be consistent with Ms. Bartels' testimony  
13 that costs should not be -- transition costs should  
14 not be allowed until there are savings reflected in  
15 the rates.

16 Q Okay. So let me get this straight. So -- well, let  
17 me ask you this. For this calculation of what WPSC's  
18 allocated portion of any synergy savings in 2016 to  
19 be, you would include Mr. O'Donnell's 2 to 4 percent  
20 non-fuel O&M reduction in costs, you would not  
21 consider whatsoever what transition costs are  
22 allocated WPSC in the 2016 test year?

23 A I would -- I'd like to read Ms. Bartels' testimony,  
24 if I could, on that subject. I do not have a copy of  
25 it. (Document tendered.)

1 I believe that if there are transition  
2 costs, those could be addressed in a reopener. This  
3 provision that I -- that Mr. O'Donnell has testified  
4 to and -- is intended to get the guaranty benefits of  
5 the transaction to ratepayers.

6 Q And that's irrespective of whether the company  
7 actually accomplishes those 2 to 4 percent O&M  
8 savings, correct?

9 A Yes. That's correct. That would be an estimate, as  
10 other -- as other parts of the revenue requirement  
11 are estimates.

12 MR. JACKSON: That's all I have. Thank  
13 you.

14 EXAMINER NEWMARK: Anything else? No?  
15 Redirect?

16 MR. CHASCO: Just one or two questions.

17 REDIRECT EXAMINATION

18 BY MR. CHASCO:

19 Q Mr. Larson, was the point of your sur-surrebuttal  
20 testimony to suggest a particular adjustment at this  
21 point in time?

22 A The point of my sur-surrebuttal was actually to try  
23 to limit the issues that were previously brought up  
24 in my testimony so that the Commission would not  
25 necessarily have to decide all of the issues that



1 would be addressed in a Wisconsin Public Service  
2 Corporation limited rate reopener.

3 MR. CHASCO: Thank you. That's all.

4 EXAMINER NEWMARK: Okay. Thanks. You're  
5 excused.

6 (Witness excused.)

7 EXAMINER NEWMARK: Any more staff  
8 witnesses?

9 MR. CHASCO: Mr. Pilo.

10 (Pause in proceedings.)

11 MR. CHASCO: No, we don't have anything  
12 for him.

13 EXAMINER NEWMARK: All right. So did  
14 anyone want to respond to that? I think you  
15 mentioned the company wanted to --

16 MR. WILSON: No.

17 EXAMINER NEWMARK: Okay. All right. So  
18 now the rest of staff witnesses will be verified by  
19 affidavit. That's right. And that's the balance of  
20 witnesses. So we're done with that part of the  
21 hearing. For the affidavits, please, I'd like them  
22 signed with real signatures.

23 And anything else? No? It can't be this  
24 easy. All right. That's it. We're adjourned.

25 (The hearing adjourned at 3:40 p.m.)

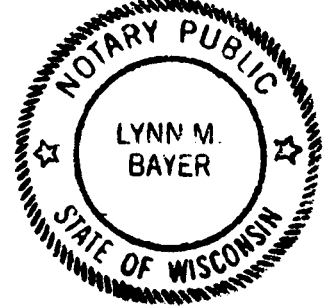
1 STATE OF WISCONSIN )

2 MILWAUKEE COUNTY )

3  
4 We, LYNN M. BAYER, RPR, CM, and JENNIFER M.  
5 STEIDTMANN, RPR, CRR, with the firm of Gramann Reporting  
6 Ltd., 740 North Plankinton Avenue, Suite 400, Milwaukee,  
7 Wisconsin, do hereby certify that we reported the  
8 foregoing proceedings had on March 11, 2015, and that the  
9 same is true and correct in accordance with our original  
10 machine shorthand notes taken at said time and place.

11 *Lynn M Bayer*

12 \_\_\_\_\_  
13 Lynn M. Bayer  
14 Registered Professional Reporter  
15 Certificate of Merit



16 *Jennifer M Steidt*

17 \_\_\_\_\_  
18 Jennifer M. Steidtmann  
19 Registered Professional Reporter  
20 Certified Realtime Reporter

21 Dated this 12th day of March, 2015.  
22 Milwaukee, Wisconsin.

1	I N D E X		
2	WITNESS	EXAMINATION	PAGE
3	ALLEN L. LEVERETT, WEC WITNESS		
4	DIRECT	EXAMINATION BY MR. WILSON	9
5	CROSS-EXAMINATION	BY MS. LOEHR	10
6	CROSS-EXAMINATION	BY MR. HEINEMANN	18
7	REFER TO CONFIDENTIAL VOLUME 5		
8	CONTINUED CROSS-EXAMINATION	BY MR. HEINEMANN	28
9	CROSS-EXAMINATION	BY MR. HEINZEN	33
10	REDIRECT	EXAMINATION BY MR. WILSON	35
11	RECROSS-EXAMINATION	BY MR. HEINZEN	36
12	RECROSS-EXAMINATION	BY MR. HEINEMANN	38
13	REFER TO PUBLIC VOLUME 4		
14	CONTINUED CROSS-EXAMINATION	BY MR. HEINEMANN	46
15	CROSS-EXAMINATION	BY MS. CRAWFORD	64
16	CROSS-EXAMINATION	BY MR. HEINZEN	69
17	CROSS-EXAMINATION	BY MR. CHASCO	75
18	JOHN J. REED, WEC WITNESS		
19	DIRECT	EXAMINATION BY MR. WILSON	77
20	CROSS-EXAMINATION	BY MS. LOEHR	79
21	REFER TO ATTORNEYS' EYES ONLY VOLUME 6		
22	CONTINUED CROSS-EXAMINATION	BY MS. LOEHR	85
23	REDIRECT	EXAMINATION BY MR. JACKSON	92
24	REFER TO PUBLIC VOLUME 4		
25	CONTINUED CROSS-EXAMINATION	BY MS. LOEHR	97

1	CROSS-EXAMINATION BY MR. HEINZEN	111
2	CROSS-EXAMINATION BY MR. CHASCO	136
3	RECROSS-EXAMINATION BY MR. HEINZEN	143
4	REDIRECT EXAMINATION BY MR. WILSON	145
5	JAMES F. SCHOTT, WPSC WITNESS, DULY SWORN	
6	DIRECT EXAMINATION BY MR. JACKSON	149
7	SCOTT LAUBER, WEC WITNESS, DULY SWORN	
8	DIRECT EXAMINATION BY MR. WINTERS	151
9	CROSS-EXAMINATION BY MS. LOEHR	151
10	CROSS-EXAMINATION BY MR. HEINEMANN	157
11	CROSS-EXAMINATION BY MS. CRAWFORD	160
12	CROSS-EXAMINATION BY MR. HEINZEN	166
13	CROSS-EXAMINATION BY MR. CHASCO	178
14	EXAMINATION BY EXAMINER NEWMARK	178
15	RICHARD S. HAHN, CUB WITNESS, DULY SWORN	
16	DIRECT EXAMINATION BY MR. WOYWOD	184
17	CROSS-EXAMINATION BY MR. WILSON	188
18	JODEE J. BARTELS, STAFF WITNESS, DULY SWORN	
19	DIRECT EXAMINATION BY MR. CHASCO	192
20	CROSS-EXAMINATION BY MR. WILSON	192
21	CROSS-EXAMINATION BY MS. LOEHR	193
22	LOIS HUBERT, STAFF WITNESS, DULY SWORN	
23	DIRECT EXAMINATION BY MR. CHASCO	197
24	CROSS-EXAMINATION BY MR. WILSON	197
25	CHRISTOPHER W. LARSON, STAFF WITNESS, DULY SWORN	

1	DIRECT EXAMINATION BY MR. CHASCO	201
2	CROSS-EXAMINATION BY MR. JACKSON	201
3	REDIRECT EXAMINATION BY MR. CHASCO	204

\*\*\*\*\*

# E X H I B I T S

8	DESCRIPTION	MARKED	ADMITTED
9	Leverett 1	10	11
10	Leverett 2	32	32
11	Leverett 3	40	46
12	Reed 10	93	93
13	Schott 2	95	95
14	Reed 11	102	103
15	Reed 12	107	108
16	Hahn 9 (Designated for delayed	188	
17	receipt)		
18	Lauber 15 (Designated for delayed	191	
19	recepit)		
20	Hubert 3 (Designated for delayed	200	
21	receipt)		
22	Hubert 4 (Designated for delayed	200	
23	receipt)		
24	Hubert 5 (Designated for delayed	200	
25	receipt)		

**WORD INDEX**

&lt;\$&gt;

**\$1.5** 186:1  
**\$10** 134:22, 24  
**\$100** 113:10  
**\$2** 78:9  
**\$2.4** 112:15, 18  
**\$20** 133:10, 19 134:18,  
 19 135:11, 13 154:13  
 155:6  
**\$200** 186:10  
**\$236** 185:5, 10  
**\$25** 154:15  
**\$40** 133:25 134:4  
**\$45** 134:24, 25  
**\$5** 134:21  
**\$600** 97:12, 19, 24 98:5,  
 15 99:15

&lt;1&gt;

**1** 1:21, 23 10:13, 14  
 11:15 132:10, 11 209:9  
**1,000** 140:21  
**1.015** 170:4  
**1.05** 102:14 113:23  
 132:2, 9  
**1.3** 199:17  
**1.5** 186:12, 15  
**1.7** 186:6, 13, 14  
**1:15** 148:5  
**10** 11:21 17:22 56:3,  
 14, 17 57:2 78:11  
 100:7 101:19, 20, 21, 21  
 105:9 106:7, 10 110:5,  
 23 121:12 133:2  
 146:21 147:6 151:23  
 152:4 164:5, 8 173:5  
 185:24 186:24 187:23  
 207:5 209:9, 12  
**10.17** 106:22 107:3, 21  
 109:13, 17  
**102** 209:14  
**103** 209:14  
**107** 209:15  
**108** 209:15  
**10-year** 47:13, 21, 22  
 56:21 105:14 108:20  
 132:4, 19 147:2  
**11** 1:21, 23 17:22  
 55:15 56:1 79:18  
 102:6, 8 103:16 107:14  
 127:4 132:1, 7 169:10,  
 11, 12, 13 170:2 180:6  
 185:19, 25 190:25  
 206:8 209:9, 14  
**111** 208:1  
**1140** 3:7  
**12** 1:24 46:16, 16, 16  
 107:9, 16, 21, 22 108:4  
 181:23 186:24 209:15  
**120** 12:20 14:9 16:23

**1200** 3:18  
**127.2** 110:22  
**12th** 206:17  
**13** 9:10 122:14, 17  
 158:3, 11 186:25  
**136** 208:2  
**14** 3:11 11:20 17:23  
 52:15, 15 55:20 69:14,  
 19, 21 70:7 71:11  
 72:24 101:2, 4 128:20  
 184:24 186:19 192:10  
**143** 208:3  
**145** 208:4  
**149** 208:6  
**15** 1:24 11:20 14:14  
 78:14 80:2 100:24  
 102:20 133:12 187:23  
 191:5 199:3 209:18  
**150** 2:14  
**151** 208:8, 9  
**157** 208:10  
**15th** 14:13, 17  
**16** 3:4 52:14, 15 97:10  
 122:14 187:23  
**160** 208:11  
**166** 208:12  
**17** 16:10, 13 17:3  
 105:22, 25 110:24  
 128:20, 24 176:13  
**178** 208:13, 14  
**17th** 106:6  
**18** 16:10 17:3, 3  
 173:20, 23 175:20  
 184:24 207:6  
**180** 15:20, 24  
**180-day** 15:24  
**184** 208:16  
**188** 208:17 209:16  
**19** 128:20, 24 136:4  
 173:19 176:23  
**191** 209:18  
**192** 208:19, 20  
**193** 208:21  
**197** 208:23, 24  
**1999** 105:6  
**19th** 5:12  
**1st** 13:24, 25 134:16

&lt;2&gt;

**2** 3:15 78:11 126:24  
 148:4 192:10 202:6, 6,  
 12 203:19 204:7  
 209:10, 13  
**2.04** 49:17 50:7, 20  
 51:23  
**2:10** 148:5  
**20** 9:10 19:4 59:14  
 175:19 185:24 195:7  
**200** 209:20, 22, 24  
**2000** 105:25 106:6  
**2004** 108:20 109:3, 17  
**201** 209:1, 2  
**2011** 105:23 114:16

**2015** 1:21 14:14 15:9  
 110:6 133:7, 10 134:18  
 135:11 161:16 184:21  
 206:8, 17  
**2016** 133:18, 24 134:16,  
 19 175:25 201:21, 23  
 202:4 203:4, 18, 22  
**2017** 134:17, 21, 23  
 154:13 155:1, 7, 8, 12  
 156:2, 5 157:2, 5 162:4  
 176:1, 4, 6 193:25  
**2020** 154:15 155:1, 13  
 156:3 157:4 194:1  
**204** 209:3  
**209** 1:21  
**20-year** 137:23 175:16  
**21** 15:9 78:3 173:21,  
 24 187:23  
**22** 78:13 112:23 136:4  
 176:23  
**222** 3:11  
**229717** 99:9  
**23** 59:25  
**231** 2:21  
**2350** 2:5  
**24** 1:21  
**27** 100:14, 15, 16 106:9,  
 12, 20 108:21 137:21  
**272-7878** 1:18  
**27th** 114:16  
**28** 207:8

&lt;3&gt;

**3** 1:24 4:18 12:5, 13,  
 17 15:5 16:2, 6, 17  
 17:6, 13, 24 46:3, 4, 5  
 52:9 54:8, 20 99:17  
 100:2, 5, 18 101:25  
 103:7 104:5, 8, 25  
 108:7, 10, 18, 23 109:2,  
 12, 15 117:18 121:7, 12  
 122:14 124:10, 18  
 125:14 126:5 132:4, 17  
 133:1 140:20 146:20,  
 22, 24 147:10 152:1, 10,  
 19, 21 153:8, 10 154:4  
 169:5 170:14 171:17  
 179:11, 15 180:21  
 181:6 185:25 200:1, 2,  
 7, 8, 14 209:11, 20  
**3.1** 50:1  
**3:40** 205:25  
**30** 113:7  
**30-day** 112:12  
**32** 209:10, 10  
**33** 207:9  
**35** 207:10  
**36** 100:2, 18 199:7  
 207:11  
**37** 199:12, 15  
**38** 185:5 207:12

&lt;4&gt;

**4** 1:12, 24 10:18 21:25  
 22:21 48:22, 24 49:13  
 52:5 58:16, 18 59:10  
 117:21 140:20 186:19  
 197:16 198:6, 9 199:1  
 200:2, 7, 9, 14 202:6, 6,  
 12 203:19 204:7  
 207:13, 24 209:22  
**40** 110:19 209:11  
**400** 206:6  
**400-megawatt** 12:7  
**402** 3:16  
**411** 2:4  
**414** 1:18  
**420** 3:7 64:21 66:17  
 160:9  
**45** 148:3  
**46** 1:21 207:14 209:11  
**4902** 2:25

&lt;5&gt;

**5** 1:25 17:24 19:4  
 21:25 22:21 24:4  
 58:21 59:10, 14 101:25  
 126:5 132:4, 4, 17, 19  
 133:1, 2 140:22 146:22,  
 24 147:10 152:2, 10, 19,  
 21 153:8, 10 154:4  
 169:5 170:14 171:17  
 173:5 179:11, 15  
 180:21 181:6 200:3, 11,  
 14 207:7 209:24  
**50** 123:6  
**5000** 2:14  
**53154** 3:8  
**53188** 2:19  
**53202** 2:6, 22  
**53226** 3:19  
**53701** 2:10  
**53703** 2:15 3:5, 12, 16  
**53718** 2:25  
**57** 198:5, 7, 8, 9, 17  
**5-year** 146:7

&lt;6&gt;

**6** 12:21 81:4 127:4  
 151:23 152:4 166:18  
 167:25 168:1 171:4  
 173:5 184:21 185:19  
 186:18 192:21 207:21  
**60** 197:19 198:18  
**600** 17:20  
**64** 207:15  
**640** 3:4  
**69** 207:16  
**6th** 13:17

&lt;7&gt;

**7** 126:24 127:4 167:8,  
 25 171:3, 4 173:5  
 186:19  
**72** 109:6, 8

<p>740 206:6 75 207:17 77 207:19 79 207:20 7th 13:18</p> <p>&lt; 8 &gt; 8 79:18 97:10 121:7, 12 124:13, 13, 14 171:4 173:5 81 1:21 85 207:22 86 192:22 87 192:22, 25 193:2 8-K 80:7</p> <p>&lt; 9 &gt; 9 1:24 11:21 12:21 16:10 112:14, 19 124:13 173:5 184:24 185:19 188:17 192:22 207:4 209:16 9:30 1:24 90 113:8 90-day 112:12 90s 181:20 92 207:23 927 2:9 93 209:12, 12 94.4 110:19 9400-YO-100 1:5 95 209:13, 13 97 1:21 207:25</p> <p>&lt; A &gt; a.m 1:24 abeyance 8:4 16:3, 7, 17 ability 46:17 able 117:11 133:14 134:3 135:1 141:24 absent 128:14 170:17 absolutely 141:11 absorb 124:5 absorbs 146:16 Accelerated 14:21 accept 16:1 46:23 59:11, 19 105:15 144:5 156:11 193:5 accepted 7:24 8:5 11:11 access 70:21 accompanying 149:9 151:9 accomplish 202:11 accomplished 145:3 202:17 accomplishes 204:7 accountant 160:9 accounting 157:13 164:25 175:5, 7, 10 177:13 accounts 128:10 130:18, 21</p>	<p>accurate 50:11 113:3 161:5, 13, 15 achievable 125:15, 23 achieve 99:21 101:11, 15 117:9 129:4 141:15, 18 143:5 144:9 achieved 124:21, 22 125:23 129:20, 22 135:6 141:21, 24 142:9 143:1 144:9 147:18 acknowledges 122:20 acknowledgment 20:15 ACQUIRE 1:5 60:12 145:8 acquired 66:14 112:24 167:6 acquirer 116:17 acquirers 116:11 acquiring 116:5, 15 125:12 145:2 acquisition 4:3 12:20, 23 13:8, 20 15:2 16:4, 8 65:25 66:1, 4, 5 67:22 72:17, 21 73:6 74:22 78:23, 25 79:2 100:24 111:20, 21, 25 112:7, 8, 10, 11, 16, 25 113:15, 16, 16, 19 115:16, 17, 19 116:16 117:2, 4, 8, 13 123:16, 19 124:19, 24 126:12, 16 127:16 128:15 132:23 133:2 135:25 136:15 139:11, 20 142:13 144:16, 23 145:2, 19 146:2, 6, 6 161:13 163:6 166:2, 24 172:12, 14 174:19 175:18 186:12, 15, 22 187:1, 17 acquisitions 50:3 100:25 104:7 106:10 108:17 109:1, 15 145:7, 16 180:1 acquisition's 133:8 actions 47:25 48:4 49:23 active 108:14 activities 46:18 47:1 actual 104:6, 11, 18, 22, 23 105:11, 13 169:9 add 75:7 added 100:20 adding 133:18 addition 136:9 176:24 additional 17:4 61:17, 19 address 19:14 20:1 21:9 48:10 128:9 163:16 addressed 21:15, 19 139:3 204:2 205:1</p>	<p>addressing 21:13 158:6 186:20 adjacent 125:1 adjourned 205:24, 25 adjustment 204:20 administration 127:15 admissions 6:8, 16 admit 6:2 admitted 9:19 51:16 209:8 adopted 140:22 affairs 48:5 49:25 53:16 affect 67:3 affidavit 190:17, 21 205:19 affidavits 205:21 afternoon 166:17 192:4 197:4, 15 201:4, 15, 16 aggregate 120:20 ago 49:16 115:15 146:10, 22 156:23 agree 47:24 48:3 50:5, 14, 17 54:1 59:1 62:12 64:24 71:2, 23 115:10, 11 122:21, 25 126:11 133:11 134:8 137:5, 11 140:11 142:21 159:18 193:9 198:4 agreed 6:7, 10 51:4, 25 71:6 123:7 128:12 188:15 190:16 agreeing 5:15 70:5 71:9 123:18, 19 agreement 13:11 23:20 24:3 60:20 62:20 63:6, 7, 8, 13, 25 64:1, 3, 11 74:24 114:8, 12 127:2 165:23 178:8 192:25 193:3 197:18, 22, 23 198:11 agreements 19:25 20:4, 16 21:8, 12, 18 22:10 23:7 60:15 128:6 178:6, 15 agrees 12:18 51:17 121:9 180:3 ahead 5:8 9:6 55:18 97:4 111:14 align 64:25 ALLEN 9:5 207:3 allocated 203:18, 22 allow 56:5 67:7, 10, 12 68:13, 17 117:10 allowed 137:22, 23 138:21 146:7 199:17 203:14 alphabetically 9:24 alternative 54:5, 21 69:17 alternatives 54:10 amending 188:2 amendment 5:17 62:21</p>	<p>AMERICAN 2:17 187:10 amount 18:6 60:21 99:21 112:2 179:19, 21 201:20 analyses 97:14 analysis 17:16, 17 70:9, 22, 23 73:3 79:22, 25 99:17 126:11, 13, 14 137:21 145:9 147:9 170:8, 9, 12 analyze 104:5 Anderson 3:8 announced 78:15, 16, 19 100:8 101:21 147:13 180:18 181:4 announcement 78:20, 22 182:3 annual 54:4, 13, 14 129:1 answer 51:7 55:13 57:15 60:4 70:13 80:24 114:3 120:1 135:7 142:12 143:16 144:25 152:19 156:6 157:10 173:25 174:1 194:6 199:3 answered 8:2 22:19 answers 9:14 10:8 71:21 77:16 149:13 151:12 192:12 anticipate 6:13 67:23 73:15 125:25 130:13 135:1 176:17 anticipated 68:8 180:19 anticipates 134:21 168:4 anymore 149:19 anyone's 58:10 anyway 144:15 apologize 106:15 182:6 appear 106:5 122:3 171:18 appearing 150:2 appears 10:25 129:6 197:18 applicable 57:4 applicant 5:4 142:15 185:13 applicant's 158:8 APPLICATION 1:4 15:5, 22 16:3, 7, 17, 19 22:1 100:21 101:7, 9 105:3 108:24 109:21 156:4 178:17 198:2 applications 15:14 applied 56:20 applies 162:18 apply 57:1 178:13 185:18 applying 157:6 appreciate 134:13 approach 48:11 169:15 177:7</p>
---	--	--	---

appropriate 128:2  
185:1 188:6  
**APPROVAL** 1:4 50:3  
59:12, 20 61:11 62:1,  
22, 23 72:17, 25 101:6  
109:8 127:16 128:8, 14  
174:7, 9 179:3  
**approvals** 12:24 13:9, 12  
**approve** 47:21, 22  
74:22 136:15  
**approved** 66:1, 4, 5, 11  
67:22 75:18 121:10  
126:12 133:9 165:8  
166:3, 3, 24 172:14  
187:11  
**approving** 62:15 72:20  
**approximately** 12:7  
186:10  
**Archive** 105:20  
**areas** 20:7 153:3  
**argue** 75:23 140:6  
**argument** 76:1 123:11  
140:20  
**arises** 134:7  
**arrive** 132:25  
**article** 110:17  
**asked** 9:13 21:23 22:16,  
18 60:3, 3 71:15 77:15  
114:6 139:25 142:11  
166:19 180:20  
**asking** 20:21 49:15  
50:15 57:16, 18 63:2,  
11 74:16 101:24 119:1  
127:21 133:15 135:21  
137:3 155:20, 21 157:8  
158:23 159:19 178:5  
198:18 203:7  
**asks** 57:8  
**aspect** 153:4 194:14, 17  
**aspects** 121:21  
**assertions** 118:9, 14  
**asserts** 184:25  
**asset** 145:10 154:24, 25  
155:10 178:4  
**asset-based** 145:7  
**assets** 112:24 127:23  
128:4 157:15  
**assistance** 110:20  
**associated** 97:14 123:21  
175:23 177:19 197:6  
**assume** 13:23 14:12, 17  
50:10 133:18 156:2  
202:16 203:9  
**assuming** 56:23 66:1  
67:22 166:3 175:24  
193:23  
**assumption** 14:8 133:21,  
22 195:14 202:11  
**assumptions** 134:5  
**assurance** 117:12  
**assure** 103:2  
**ATC** 19:5, 10, 25 20:20  
21:9, 19 22:10 23:8, 9,

11, 12 47:3, 6, 12, 25  
48:14 49:6, 17 50:6, 10,  
13 51:6 52:21 54:24  
56:8, 15 58:1, 8, 11, 23  
59:13, 21 60:12, 13, 19,  
19 61:3, 4, 19 75:18, 22,  
24 76:4 200:10  
**ATCMI** 47:7 50:1  
**ATC-related** 18:24  
**ATC's** 46:18 51:1  
52:24 56:14 62:21  
187:18  
**attached** 107:4 114:2, 10  
**attachment** 10:25  
**attempt** 104:5, 11  
**attention** 157:23 170:6  
187:22  
**attorney** 53:23  
**attorneys** 20:8 23:21,  
22 80:17 81:3, 4 207:21  
**attributing** 127:18  
**attrition** 65:4 162:12  
163:22 164:2, 7 165:10,  
12, 13 166:2 171:11  
173:2 182:9, 11, 16  
**audit** 130:16  
**August** 105:22, 25 106:6  
**authority** 50:12  
**authorization** 48:1, 4  
49:24  
**authorize** 146:1  
**available** 9:21 79:10  
151:15 188:9 195:18  
**Avenue** 2:5 206:6  
**average** 112:13 181:13  
**avoidance** 176:9  
**aware** 10:5 11:8, 9  
12:10 14:18, 24 15:11,  
15 20:4 21:8, 12, 17  
53:9 58:4 61:1 67:4  
110:1 129:3 136:1  
139:3 140:1 153:6  
158:5 166:4 169:7  
182:25

## &lt; B &gt;

**BACK** 3:25 21:5 46:7  
65:15 69:25 98:8  
100:23 105:11 106:12  
110:24 111:10 148:4  
152:18 153:19 162:1  
180:6  
**balance** 205:19  
**bankers** 185:4, 12, 16  
**bar** 104:21  
**Barclays** 103:20  
**bargaining** 67:18, 21  
165:23  
**Bartels** 122:20 188:4  
191:16 192:1, 4 203:12,  
23 208:18  
**base** 131:16 134:14, 15  
135:3, 16 138:11, 17

**based** 12:19 14:15  
125:16 137:21 170:7, 9,  
12 179:17, 17, 25  
185:13 186:7 202:10  
**basically** 20:14 49:16  
100:12 116:18 127:23  
**basis** 5:17 101:24  
113:6 120:20 121:23  
129:2 140:10 171:15  
**BAYER** 1:17 206:4, 12  
**BEC** 104:20 105:1  
147:4  
**beginning** 13:5, 7 49:21  
79:20 122:16 166:18  
167:25 168:1 170:7  
176:23 192:21 199:3  
**begins** 117:21 173:21, 24  
**behalf** 47:25 49:23  
51:1 79:22 157:21  
188:24 197:15  
**belief** 120:14  
**believe** 4:19 6:5, 10  
10:7 12:21 13:16, 17  
15:19 47:19, 22 48:23  
53:15, 17 54:6 55:14  
56:17 62:10 63:6, 8  
67:20 72:10, 15 75:5  
80:1 99:10 106:21  
107:10, 16 117:2  
118:17 120:2 137:1  
139:9 142:16 163:21  
171:18 174:11 189:12  
191:15 193:11, 11  
194:4 202:23 204:1  
**believes** 116:15 161:18  
**benefit** 17:10, 12 18:1  
137:19 142:2, 23  
152:15, 21 153:15, 21  
156:13 182:11, 14  
**benefits** 17:19 18:3, 8  
110:6 121:20 151:22  
152:3, 24 153:6, 13, 15,  
24 154:3 155:4, 9  
156:3 157:3 166:20  
168:25 172:12 175:9,  
23 185:1, 3 204:4  
**best** 118:20 119:11, 22  
120:4, 15, 19, 22, 23, 24  
121:10, 16 122:9  
126:20 139:5 152:25  
161:6 179:23 184:18  
192:13 197:9, 10 201:9  
**better** 174:17  
**beyond** 121:18 147:6  
168:21  
**bidders** 116:10  
**big** 164:10  
**bill** 110:20  
**billion** 78:9, 11, 11  
112:15, 18 186:1, 6, 12,  
13, 14, 15  
**Biltmore** 2:25

**binding** 64:10  
**bit** 59:9 115:8 157:24  
**black** 104:21  
**BOARD** 3:3 47:6, 7, 9,  
9, 12, 20, 25 48:4, 15  
49:20, 24, 24 50:6, 15  
51:2 52:18, 25 53:12,  
16 54:18 55:7 56:8, 15  
57:6 58:1, 5, 9, 11, 13  
59:2, 4 79:23 116:20, 21  
**Boardman** 2:8  
**board's** 50:12  
**book** 112:2, 10, 24  
113:20 115:20 142:14  
**boost** 110:6  
**bother** 100:12 149:24  
**bottom** 108:10  
**bound** 67:15  
**Box** 2:9  
**BRADLEY** 2:14  
**Brady** 2:3  
**break** 20:6 76:19 148:5  
**BRIAN** 2:4  
**briefly** 77:25 185:10  
186:6 187:7  
**bring** 128:2 169:4  
**brinksmanship** 127:24  
**broad** 121:5  
**brought** 100:14 204:23  
**build** 47:3, 3 134:5  
**building** 123:10 154:21  
**built** 99:17  
**burden** 118:19 119:3  
**business** 48:6 49:25  
65:1, 7 161:23 166:23  
**buy** 178:14  
**bylaws** 50:2 52:24 53:4,  
18 55:7, 9, 12, 14, 24  
56:5 200:10

## &lt; C &gt;

**Caisse** 79:3  
**calculate** 202:15  
**calculated** 179:12  
**calculation** 179:19  
180:4 203:17  
**calendar** 60:22  
**call** 142:20 146:12  
162:17 183:10  
**called** 47:12 137:15  
**calling** 73:19 118:22  
**Calls** 119:13 128:16  
**camera** 20:10 23:18  
**cap** 78:8, 9  
**capacity** 12:12 188:25  
**capital** 78:15 103:20  
141:22 142:4 154:21,  
22 156:6, 25, 25 157:11,  
12, 13 165:1 175:6, 13  
194:5  
**capitalization** 78:8, 12  
**capitalize** 175:7



capitalized 164:15, 19, 24  
 capture 168:21  
 captured 103:24, 25  
 143:5  
 care 21:3 190:12  
 careful 111:25 175:3  
 Carroll 3:4  
 carrying 194:15, 18, 22  
 carts 73:20  
 case 4:3 5:18 19:11, 23  
 52:19 69:18 70:4, 15  
 77:10 80:8 104:1, 2  
 109:24 110:2 116:8, 9,  
 24 117:3 122:7 124:17  
 127:20 129:16 130:9,  
 10 134:14 135:4  
 136:17 139:2 142:22  
 143:18 144:4, 17  
 145:23 146:2, 14, 15  
 155:14 156:10, 14  
 157:7 160:12, 15  
 161:12 162:2, 8 170:20  
 174:15, 22 175:24, 25  
 179:1, 3, 7, 9 180:21  
 181:24 195:13, 19  
 201:22 203:3  
 cases 117:11 127:20  
 130:22 134:16 137:8  
 139:22, 22 180:10, 15  
 199:9, 14  
 cash 186:10  
 CATHERINE 2:21  
 cause 9:9 77:9, 12  
 151:4 184:13 197:4  
 201:4  
 caused 158:7 192:5  
 CENTER 3:10 12:5  
 Central 78:23  
 centralized 166:25  
 Century 105:16, 21  
 106:4 147:4  
 certain 23:21 56:16  
 57:12, 25 122:9  
 certainly 17:2, 14 47:19  
 61:6 62:2 63:3, 11  
 64:5, 8 66:19 68:15  
 78:1, 17 124:20 140:10  
 143:12 173:4  
 certificate 15:13 206:13  
 Certified 206:17  
 certify 206:7  
 cetera 172:17  
 CFO 114:25 115:1  
 change 58:23 60:22  
 68:1, 5, 22 123:22  
 139:14 146:22 147:9  
 148:6 162:7, 9 175:17  
 changed 161:22 175:18  
 186:17  
 changes 67:3, 25 68:7  
 characterization 80:7  
 134:9 140:8

characterize 144:11  
 characterized 123:8  
 Chart 100:2, 5, 18, 25  
 103:7, 19 104:5, 8, 25  
 106:20 108:7, 10, 18, 18,  
 23 109:2, 12, 15, 16  
 124:10, 18 146:20  
 169:23, 25 180:6, 7  
 181:4, 8  
 Chasco 3:22 49:11  
 75:12, 16 76:9 107:16  
 136:22, 24, 25 143:7  
 178:2, 20 191:15 192:3,  
 16 195:25 197:3, 11  
 199:22 201:3, 11  
 204:16, 18 205:3, 9, 11  
 207:17 208:2, 13, 19, 23  
 209:1, 3  
 CHASE 3:11  
 check 15:7 105:11  
 106:12 108:15  
 checking 105:18  
 Chicago 200:9  
 choice 177:21  
 choose 138:14  
 chose 100:4, 5  
 CHRISTOPHER 2:18  
 201:1 208:25  
 circumstance 130:8  
 circumstances 164:18  
 citation 79:6  
 CITIZENS 3:3  
 clarification 21:14, 16  
 62:24 63:15 69:11  
 77:23 78:2, 2 79:5  
 172:21 178:23 180:20  
 193:8, 10  
 clarifications 21:23  
 22:7, 20, 25 23:3  
 clarified 194:4  
 clarify 22:11 65:20  
 75:20 78:5 144:20  
 156:24 159:22 188:2  
 Clark 2:8  
 Class 49:22, 22  
 clean 173:11  
 clear 59:14 61:15 81:2  
 101:10 120:1 138:19  
 158:22 172:10 174:18  
 199:6 200:5  
 cleared 53:5  
 Clearly 137:4 139:21  
 171:20  
 Cleco 78:23  
 close 12:23 13:8, 10, 20  
 14:12  
 closed 104:7 105:5  
 106:4 108:8, 13 109:3  
 closes 16:4, 8 68:4  
 133:9, 9 172:14  
 closing 12:20 13:1  
 14:17 140:2 146:11  
 CM 206:4

collective 67:18, 20  
 165:22  
 collectively 124:20  
 color 181:15  
 combine 134:17  
 combined 12:8, 11 66:7  
 69:13 70:6 72:23  
 132:18 170:15 180:23  
 181:10, 12 202:3, 11, 18  
 combines 71:10  
 combining 98:21 152:8  
 come 6:19 104:4  
 121:15 130:9 134:15  
 144:1 162:1 176:16  
 180:24 195:9, 9 198:24  
 comes 134:14 166:23  
 coming 110:24 180:15  
 comments 18:23 199:25  
 200:12  
 Commerce 11:2, 4  
 13:13 14:1, 19 15:1  
 COMMISSION 1:2, 22  
 3:21 11:2, 5, 23 13:14  
 14:1, 19 15:19 16:18,  
 24 17:5 59:11, 19  
 61:11, 11 62:1, 15 63:9  
 64:7 66:2 67:23 72:13,  
 15, 20, 21 73:2, 11, 11  
 74:9, 10, 13, 22 75:5, 10,  
 21, 24 76:5 97:13 99:9  
 101:12, 13, 24 120:3  
 125:7 126:14, 20, 23  
 128:1 129:1 135:5  
 136:14, 25 137:23  
 138:24 140:21 141:11  
 142:23 145:25 146:1  
 155:15, 20 156:10, 19  
 158:24 160:13, 15, 22  
 161:4, 8 162:2 174:8,  
 15 176:13 177:12, 17,  
 24 179:2, 22 186:21  
 193:12 194:10, 13  
 195:4, 10, 11, 19 198:22  
 201:19 204:24  
 Commissioners 189:21  
 commissions 138:14, 19  
 Commission's 15:1 76:7  
 80:8 102:16 127:2  
 129:25 135:8  
 commit 63:10 76:4  
 138:16  
 commitment 61:3, 8, 23,  
 25 71:19, 20 74:5, 8, 21  
 117:13 136:16 137:14  
 138:8, 24 142:6 159:12  
 163:4 172:18, 22, 25  
 173:4, 6 182:19 198:1, 2  
 commitments 11:3  
 19:25 20:5, 13, 16 21:8,  
 18 22:11 23:8 63:4, 5  
 64:3, 8, 9 110:1, 9, 14,  
 15, 16 111:1, 3 135:22  
 139:9

committed 72:2 75:3  
 162:25 163:8 186:25  
 committee 53:16, 17, 18,  
 22, 24 54:1, 11  
 committing 174:19  
 176:6  
 COMMON 1:5 116:19,  
 24  
 Commonwealth 104:20  
 105:1 147:4  
 Community 110:5  
 125:8, 25 126:8  
 community's 126:3  
 companies 23:21 66:10  
 78:4, 6, 8, 10 100:9, 14,  
 21 101:6, 12 110:22  
 112:3 115:22 125:14  
 126:6, 25 140:1 142:5  
 170:17 180:9 187:11  
 199:9, 13  
 COMPANY 2:17 14:6,  
 14 23:4 48:6 49:24  
 50:1 54:9 59:11, 18, 22  
 61:2, 7, 10, 16 65:15, 17,  
 24 67:2, 15 70:19, 21  
 78:10, 24 113:12 116:5  
 123:7 129:19 130:19,  
 21 132:18 135:22  
 136:2 139:10, 18 142:5  
 145:2, 3, 4, 9, 25 146:3,  
 5, 15 147:10 152:9, 15,  
 22, 23 153:14 154:11,  
 16 155:6, 11, 14, 21  
 156:18, 21 157:4, 25  
 158:12, 20, 21 159:22  
 161:18 162:25 163:25  
 164:12, 23 165:6, 8  
 166:1, 25 170:15 179:4,  
 12, 14, 15, 22 180:3  
 181:5, 11 186:9 187:10,  
 13 188:15 193:5, 9  
 194:11 195:11, 12  
 202:3, 11, 18 204:6  
 205:15  
 company's 10:18 18:10  
 56:18 62:11 65:7  
 136:16 140:16 193:22  
 comparable 125:17  
 147:19 181:7  
 compare 68:2  
 compared 97:21 137:2  
 compile 49:4  
 complete 15:18, 23  
 completed 100:13, 14  
 178:11  
 completely 134:8  
 component 171:25 172:1  
 components 17:20  
 97:23 98:5, 15 120:5  
 Compound 69:24  
 concern 58:12, 22  
 163:13, 16  
 concerning 77:18

**concerns** 19:14 20:1  
 21:9, 13, 19 23:11  
 63:16 75:24 158:5  
**concession** 123:14  
 124:4, 7 136:14 137:14  
**concessions** 122:22  
 123:1, 2, 8, 9, 9, 25  
 127:8 139:4, 9  
**concluded** 132:16  
 170:12  
**conclusion** 57:9 74:16  
 118:23 119:14 121:23  
 127:3 132:3  
**conclusions** 186:16  
**concurrently** 138:10  
**condition** 59:11, 19  
 61:6 62:18, 19 72:19,  
 22, 25 73:3, 16 116:1  
 141:4, 5, 7 147:16  
 157:25 158:12, 19  
 165:9 186:20 193:4, 10  
 195:19, 21 198:15, 16,  
 16, 17  
**conditions** 13:10 18:24  
 23:4 52:11 58:14, 22  
 62:13 123:6 139:4  
 198:14  
**condition's** 141:8  
**conduct** 65:21, 24  
**conducted** 65:21 116:14  
 145:22, 25 146:19  
**Conducting** 65:21  
**confer** 158:13 159:16  
**confidential** 23:14, 20  
 24:4 80:1, 25 81:1  
 99:11 189:12, 16, 17, 18,  
 20, 24 190:1, 3 207:7  
**confidentiality** 20:22  
**confirm** 141:2  
**confirming** 59:17, 22  
**conforming** 199:16  
**confused** 22:23 80:24  
 112:6  
**confusion** 53:3 113:1  
 144:15 189:20  
**conjunction** 97:15  
**connection** 114:16  
**consequence** 59:2  
 135:24 144:1  
**consider** 61:6 62:2  
 69:13 74:21 118:7, 9  
 119:19 135:5 138:25  
 158:18 159:22 203:21  
**consideration** 15:12  
 101:13 119:21 135:9  
 138:12  
**considerations** 121:6  
**considered** 61:5 118:15  
 139:20  
**considering** 14:19, 23, 24  
 144:24 179:5  
**considers** 53:25

**consistent** 126:5 170:19  
 188:4 203:12  
**consists** 10:24  
**constraints** 99:4  
**construct** 12:9, 10 15:5  
**constructed** 99:20, 20  
**constructing** 17:13  
**construction** 46:18  
 47:14  
**consumers** 118:20  
 120:6, 16, 23 121:11, 17  
 122:10  
**consummating** 178:6  
 185:4  
**contained** 9:13 22:20  
 77:15 146:20 149:11  
 151:11  
**context** 20:1, 20 22:9,  
 15 63:24 78:6  
**continue** 68:6, 13  
**Continued** 3:1 46:1, 13  
 97:1, 5 207:8, 14, 22, 25  
**continuing** 155:13  
**contract** 164:12 165:14,  
 21 167:5  
**contracted** 164:15 165:4  
**contracts** 165:21  
**control** 123:22 139:14  
**convenience** 15:13  
**conversation** 68:24  
**conversion** 49:22  
**copy** 106:16 169:13  
 173:9, 12, 14 188:16  
 200:9 203:24  
**corporate** 145:6, 10  
**CORPORATION** 1:4  
 2:3, 13 11:25 12:1  
 70:7 202:9 205:2  
**Corporation's** 12:4  
**correct** 4:11, 22 9:19  
 11:23 14:11 19:8, 15,  
 16 20:2 22:5 46:19  
 47:4, 7, 18 50:8 52:21  
 56:4, 10, 16 57:13  
 58:24 59:13, 15 62:9,  
 16 67:16 71:3 79:23  
 98:16 101:1 102:18  
 106:13 108:12 109:18  
 121:13 122:5 133:13,  
 17 138:12 143:3 151:9,  
 10 153:22 154:1, 9  
 158:9, 10, 15, 16 160:11,  
 13, 14, 17 161:2, 10, 14,  
 19 162:9, 13, 15, 21, 24  
 163:3, 21 165:12  
 168:18 171:15 172:20  
 174:12 175:21 184:17  
 192:13 193:1 197:9  
 198:3, 3, 18 199:9  
 201:9, 23 202:4, 19  
 204:8, 9 206:9  
**correction** 4:11, 15, 17  
 192:9

**corrections** 4:16 8:5  
 9:16 77:19 191:9, 10  
 192:8  
**correctly** 46:22 117:25  
 122:22 167:23 168:7  
 177:1  
**correlation** 168:5  
**correspond** 111:2  
**cost** 97:23 98:5 101:11,  
 15 116:3 117:9, 12  
 121:20 123:21 124:4  
 129:9, 13, 14 130:4, 5, 6,  
 11, 12, 18 137:2 141:18  
 142:18 144:3, 8 147:14  
 154:7, 19 156:4, 8, 11,  
 11, 12, 16 157:11, 11, 12  
 160:16, 18, 20 164:15,  
 16 165:4, 5 168:25  
 172:6 174:16 175:4, 6,  
 6 176:8, 19 185:16  
**costs** 98:25 101:16, 16,  
 17 123:20, 21 124:3  
 128:22, 25 129:3, 12, 17,  
 20, 21 130:9, 15, 19, 25  
 131:2, 4, 11, 12, 15, 16, 19,  
 23 132:22 133:10, 19,  
 25 134:2, 19, 20, 22, 24  
 135:11, 13, 20, 24 136:9,  
 11 137:10, 12, 15, 25  
 138:4, 8, 9, 13, 22  
 139:14, 17, 23 140:23  
 143:4, 19, 20 146:6  
 153:21 154:13, 14, 17,  
 20 155:7 156:2, 10  
 157:1, 5 160:19, 21  
 170:16 173:17 174:5, 7,  
 14, 20, 21, 25 175:1  
 176:2, 4, 6, 7, 9, 15, 24  
 177:1, 5, 8, 11, 18, 19  
 185:11, 25 187:24  
 188:3, 7 192:23 193:7,  
 13, 19, 24, 24 194:9, 11,  
 16, 18, 21, 22, 22 195:1, 5,  
 13, 20 203:9, 13, 13, 20,  
 21 204:2  
**Counsel** 3:22  
**count** 116:3 123:24  
 141:17, 24 142:10  
 147:15 160:24 163:1  
 167:20 168:6, 11, 16, 21  
 171:7 197:19 198:5, 15  
**counting** 147:3  
**counts** 168:18  
**COUNTY** 206:2  
**couple** 52:8 59:8 69:3,  
 8 75:12 111:19 137:1  
 163:23 171:11 178:3  
**course** 129:15 159:2  
 179:13  
**Court** 2:19 3:8  
**cover** 117:12 142:18  
 189:12  
**coverage** 126:3

**covered** 153:8, 12  
 175:15 188:12 198:5,  
 17, 17  
**CPCN** 15:6, 12, 18, 21  
 16:18  
**CRAWFORD** 3:7  
 64:15, 18, 21 69:1  
 149:22 160:5, 7, 8  
 207:15 208:11  
**create** 103:7  
**credits** 110:20  
**Creek** 3:8  
**cross** 46:7, 8 136:20  
 151:15 188:10  
**cross-examination** 9:22  
 10:1 18:17 46:13  
 64:17 69:6 75:15  
 79:10, 13 97:5 111:15,  
 20 130:2, 16 136:23  
 146:18 149:18 151:19  
 157:19 160:6 166:13  
 178:1 188:21, 22  
 192:18 193:17 197:13  
 201:13 207:5, 6, 8, 9, 14,  
 15, 16, 17, 20, 22, 25  
 208:1, 2, 9, 10, 11, 12, 13,  
 17, 20, 21, 24 209:2  
**crowd** 180:13  
**CRR** 1:16 206:5  
**CUB** 9:24 10:5 23:24  
 79:12 80:2 111:11  
 146:19 151:16 184:1,  
 25 188:17 208:15  
**CUB-Hahn-9** 188:18  
**CUB-interrogatory-3**  
 10:18  
**CUB's** 10:17  
**CULHANE** 2:24  
**cumulatively** 138:1, 2  
**curious** 167:4 180:5  
 189:9  
**current** 138:15, 17  
 161:24 168:15  
**currently** 47:6 53:4  
 55:15 56:1, 4 147:8, 12  
 165:15 168:20  
**customer** 69:23 70:10  
 110:18 158:20, 25  
 159:2, 9, 13, 14  
**customers** 18:3 110:6,  
 21, 25 117:16 119:11,  
 23 120:6 121:25  
 127:13, 14 128:5  
 129:15 137:19 143:2  
 151:22 155:9, 12  
 156:14 159:9, 10, 24  
 160:25 166:20 167:21  
 168:6, 13 172:11  
 176:20 179:24 182:12  
 187:19  
**cycle** 12:8, 11 162:4

## &lt; D &gt;

**DANEASTMAN** 3:18  
**DANIEL** 2:24  
**data** 10:17 48:14 49:11,  
 17 70:21 101:23  
 102:13 105:11 106:19,  
 22 107:21 118:6, 10  
 131:24 160:23 161:1  
 170:3 185:13 186:8  
**database** 109:9  
**date** 13:16, 19 14:9  
 101:22 105:24 106:2  
 175:1  
**dated** 105:22 206:17  
**day** 113:7 142:5, 8  
 190:11 206:17  
**days** 12:20 14:9 15:20,  
 24 16:23 113:7, 8  
**de** 79:3  
**deadline** 13:17 14:3  
 15:12, 15, 16, 17  
**deal** 103:25 124:25  
 126:7 146:11  
**dealing** 154:19  
**deals** 116:11, 24 122:6  
**debate** 75:17  
**debt** 186:2, 7, 12, 15, 17  
**December** 13:4, 6, 7  
 14:7  
**decide** 14:5 155:18, 21  
 156:10 204:25  
**decided** 70:24 72:2, 4, 8  
 156:20  
**decides** 61:9  
**decision** 13:14 17:1, 5  
 72:5 127:2 140:13  
 155:15, 19  
**decisions** 67:4  
**declared** 80:18  
**deem** 16:18 159:15  
**deemed** 15:18, 22 20:8  
 189:24  
**deeper** 23:20  
**defer** 131:10 135:19, 24  
 137:12 174:20, 21  
 177:17 194:11, 12 195:5  
**deferral** 131:3, 14  
 133:16 135:16 137:24  
 138:5 155:16 156:12,  
 14 157:8 174:4, 6, 15,  
 16 176:7 178:25 179:2,  
 3 194:14, 20 195:12  
**deferrals** 179:5  
**define** 118:2 171:8, 9  
**definitely** 163:12 195:6  
**definition** 55:4 112:8  
 117:14 118:11 121:8  
**definitions** 78:7 112:17  
**definitive** 178:6  
**delayed** 5:14 6:23  
 188:18 190:23 191:6  
 200:15 209:16, 18, 20,  
 22, 24

**demonstrate** 119:10  
 134:3  
**demonstrated** 117:23  
**denials** 6:9, 15  
**deny** 186:21  
**Department** 115:3  
**departures** 164:1  
**depend** 8:2 135:3  
 164:20, 22 165:22  
**depending** 161:25  
 164:22  
**depends** 113:6 123:17  
**depot** 79:3  
**depreciating** 157:12  
**derived** 97:18  
**describe** 10:23 53:11  
 100:4 110:14  
**described** 125:2  
**describing** 67:20  
**description** 50:11, 12  
 209:8  
**designated** 188:18  
 191:5 200:14 209:16,  
 18, 20, 22, 24  
**desire** 21:13 167:19  
 168:15, 17 171:5  
**detail** 20:14 97:25  
**detailed** 17:16  
**details** 15:16 72:3 74:6  
 80:22 178:10 181:14  
**determination** 194:14  
**determinations** 120:22  
**determine** 69:16, 22  
 70:9 71:20 72:10  
 100:16 104:11 125:22  
 126:23 129:7 194:10  
 195:2, 8 201:19  
**determined** 15:16  
**Detmer** 17:9, 19 97:14,  
 18 99:21  
**Detmer's** 98:6, 14 99:6,  
 8, 16, 16  
**develop** 47:12 168:18  
**developed** 66:9 97:24  
 166:5  
**development** 50:4  
**difference** 99:10 109:9  
 112:23 115:12 144:24  
 145:1, 5 157:10  
**different** 59:21 60:10  
 71:21 74:12 80:19  
 104:3 112:1, 1, 5  
 117:15 131:13 137:1  
 141:23 144:20 154:20  
 155:24 159:8 163:10,  
 13 165:3 177:6 180:1  
 199:8, 10, 12  
**differently** 121:1  
**difficult** 195:8  
**direct** 4:13 9:7 17:9  
 77:5, 9 80:3 97:15  
 100:1 124:10 146:21  
 149:3, 9, 12 151:2, 5, 5,

23 152:4 166:18 167:8,  
 25 168:5 171:3 184:2,  
 14 185:14 186:21  
 187:22 188:4 189:11,  
 23 192:2, 5 197:2, 5  
 201:2 202:5 207:4, 19  
 208:6, 8, 16, 19, 23 209:1  
**direction** 20:11 149:8  
**directly** 141:3 167:5  
 175:4  
**director** 53:20 56:5  
**Directors** 47:7, 7 48:16  
 50:16 51:2 53:25 54:1,  
 2, 22, 23 55:2, 15, 21  
 57:13 58:1 79:23  
**disability** 164:1  
**disagree** 115:6  
**disagreement** 114:9  
 159:21 198:23, 25  
**disclosed** 189:25  
**discovery** 5:3, 5, 12, 15,  
 16, 20, 22 10:5 19:20  
 130:2, 7, 16 169:3  
 190:24  
**discuss** 11:21 12:3  
 79:25 152:4 192:22  
 199:2  
**discussed** 69:10 104:16  
 180:8 189:13  
**discusses** 56:9 80:12, 13  
**discussing** 68:20 97:12  
**Discussion** 7:21 52:13  
 76:18 107:19 111:9  
 148:2 157:24 159:20  
 166:9 191:4  
**discussions** 159:5, 7  
**dispatch** 97:22 98:23  
 142:2 153:16, 24  
**dispatched** 142:3  
**disproportionate** 52:20  
**dissatisfied** 74:9  
**distinct** 73:7  
**distinction** 116:12 145:5  
**diverse** 152:14 153:14  
**diversity** 59:3  
**divert** 165:18  
**dividend** 199:2, 7, 8, 11,  
 12, 15  
**dividends** 199:17  
**Docket** 1:4 178:14  
**document** 50:24 51:5,  
 13 52:1 80:10 102:25  
 107:4 110:4, 7 170:2  
 173:13 203:25  
**documentation** 102:24  
 103:4 104:24 105:13  
**documents** 6:6, 8, 11, 13,  
 14 7:24 8:4 49:4  
 62:21 102:18 107:7  
 114:2, 4, 9, 13  
**doing** 6:8 130:3  
**dollar** 18:6 99:21

**dollars** 127:22 128:3  
 133:7  
**doubled** 110:18  
**doubt** 15:8, 10 51:6  
**downloaded** 105:19  
**downside** 117:24  
**DPU** 105:3  
**dramatically** 71:21  
**draw** 125:20 144:19  
 157:22  
**draws** 116:13  
**driven** 116:2 125:2  
**DULY** 9:5 77:4 149:2  
 151:1 184:1 192:1  
 197:1 201:1 208:5, 7,  
 15, 18, 22, 25

## &lt; E &gt;

**earlier** 14:5 104:16  
 120:10 131:24 193:20  
 202:20  
**earliest** 13:19  
**early** 178:14 181:20  
 193:7  
**earnings** 146:17  
**East** 2:4, 14 3:15  
**easy** 8:13 135:10 150:4  
 205:24  
**eat** 195:13  
**economic** 122:21, 25  
 123:1, 8, 25 139:9  
**economies** 152:11  
**effect** 53:4 54:9 129:14  
 175:1 176:1  
**effectively** 126:19  
**effects** 186:16  
**efficiency** 110:21  
**EGEAS** 12:19 14:15  
 16:14 17:8 97:14 98:2,  
 17, 20  
**eight** 184:15  
**eighth** 100:18 104:16  
**either** 13:17 62:20  
 63:24 75:25 112:8  
 113:19 117:14 119:9  
 123:8 139:18 163:25  
**elect** 54:22, 24  
**elected** 56:6  
**electric** 69:9, 12, 18  
 70:4 71:3, 7, 8 72:22  
 73:17 74:5 78:21, 23  
 100:9 125:19 158:8  
 181:18 187:9  
**elements** 141:18 168:8  
**eliminate** 65:13  
**e-mail** 77:22 191:9  
**emphasis** 18:2  
**employed** 154:22 165:5  
**employee** 160:18 161:3,  
 11 167:20 168:5, 10, 16  
 171:7 197:19 198:15  
**employees** 65:10 66:8  
 67:3 152:25 160:21, 23

161:17, 20 162:18, 19,  
23 163:15, 24 164:9  
165:5, 15, 19 182:15  
**employment** 198:1, 21  
**encompassed** 154:4  
**encompassing** 121:5  
**Energies** 105:22 160:12,  
22 161:9, 12, 18 162:1,  
23 164:2 178:13  
**ENERGY** 1:4, 5 2:3, 12  
3:14, 18 7:2 12:5  
78:21 79:23 98:24  
104:8, 20 105:1 110:21  
111:18 166:16 181:23  
**engage** 65:17 66:3  
68:23 127:23 147:14  
**engaged** 65:18, 19 70:20  
**enhanced** 52:18  
**enter** 7:5  
**entertain** 128:1  
**entire** 109:5 185:11, 16  
**entities** 57:5 100:4  
101:8 182:14 187:8, 21  
**entitled** 56:15 57:5  
58:8, 10  
**entry** 5:13  
**environment** 161:25  
**ENVIRONMENTAL**  
3:10  
**equity** 78:10, 25  
**ERF** 102:17  
**errata** 4:21 77:18  
**especially** 197:23  
**essentially** 53:22 60:5  
116:22 120:19 121:4  
141:8 142:8 144:6  
146:15  
**establish** 152:23  
**established** 149:1  
161:21 183:11  
**estimate** 97:19 104:17  
105:12 108:23, 25  
114:5 126:5 141:3  
146:22, 25 147:7 153:8  
154:5 178:17 195:2  
204:9  
**estimated** 17:24 101:4  
104:8 126:7 156:3  
180:19 185:5 194:1  
**estimates** 100:17 104:22,  
23 204:11  
**et** 172:17  
**event** 61:24 158:8  
**everybody** 4:2 121:9  
190:17  
**everyone's** 179:11  
**evidence** 7:23 117:23  
118:2, 8, 9, 11, 12, 13  
119:10, 16  
**evolved** 122:20  
**evolves** 161:24  
**exact** 12:11 13:16

98:14 155:25  
**exactly** 156:20 188:16  
**EXAMINATION** 9:7  
77:5 145:14 149:3  
151:2 178:21 184:2  
192:2 197:2 201:2  
204:17 207:2, 4, 10, 19,  
23 208:4, 6, 8, 14, 16, 19,  
23 209:1, 3  
**examine** 131:15 138:14  
**examined** 100:15, 15  
103:23  
**EXAMINER** 1:9 4:2,  
20, 23 5:25 6:4, 17 7:1,  
7, 12, 15, 19, 22 8:3, 10  
9:1, 6, 20, 23 10:13  
11:12, 14 18:14 20:17,  
21, 25 21:2 22:22  
23:16, 25 46:4, 6, 10  
48:12, 17, 21, 25 49:3, 8,  
12 50:18, 21 51:4, 14,  
19, 24 52:4 57:15 60:2  
64:13 69:3 70:2 73:22,  
25 75:10 76:11, 13, 16  
77:1 79:8, 11 80:21  
81:2 97:2, 4 102:6  
103:13, 15 107:2, 6, 9,  
13, 17, 20, 25 108:3  
111:7, 10, 13 119:5, 17  
128:18 136:20 143:8,  
11 144:13 145:12  
147:21, 25 148:3  
149:17, 20, 23 150:1, 4,  
6 151:16 160:3 166:7,  
10 169:11, 16 170:22,  
25 172:3 177:24  
178:22 181:1 183:1, 4,  
7, 9 188:11, 20 189:7  
190:2, 7, 12, 14, 18  
191:2, 7 192:17 193:16  
195:23 196:1 197:12  
199:20, 23 200:4, 11  
201:12 204:14 205:4, 7,  
13, 17 208:14  
**examining** 97:20 131:20  
**example** 56:21 130:6  
133:6 137:23 142:2  
175:14, 22  
**examples** 78:18 141:20  
**exceed** 136:10 137:16,  
24 138:4, 9 143:20  
164:8 177:1, 11  
**exceeds** 144:9  
**exception** 5:21, 21  
100:18, 22 105:10  
**excerpt** 102:23  
**excess** 134:4  
**Excuse** 49:2 58:13  
99:13 110:9 131:14  
137:22 139:13, 24  
186:19  
**excused** 76:14, 15  
147:22, 24 150:5 183:5,

6 190:13 196:1, 3  
199:23 200:13, 16  
205:5, 6  
**executive** 67:5  
**executives** 66:20 67:1  
**Exelon** 108:11 109:20  
110:1, 6, 9 111:4  
139:24 147:13, 13  
**exercise** 19:14 23:12  
**exhaust** 180:23  
**exhibit** 4:18, 18 5:14  
6:24 7:2 10:14 11:11,  
15 46:3, 5 48:24 51:11  
52:3, 5 53:6 99:12, 12  
102:8, 12, 23 103:16, 19  
106:25 107:22 108:4,  
19, 23 109:2 113:25  
125:14 149:9 170:2  
188:12, 17 190:23, 24  
191:5 198:6  
**EXHIBITS** 1:22 4:7  
77:13 99:6 118:4, 13  
151:9 184:15 197:6, 8  
199:25 200:14 201:5, 8  
**Exhibit-WEC-Leverett-1**  
10:17  
**exist** 20:14  
**existence** 21:18 56:18  
**existing** 62:21 186:10  
**expand** 65:6 152:19  
**expansion** 98:25  
**expect** 12:25 18:9 64:5  
68:1, 5, 9, 11 116:2  
117:7 137:21 146:11  
147:10 155:12 167:21  
178:13 182:21  
**expectation** 64:2 73:9  
**expectations** 125:3  
126:23  
**expected** 113:18 124:22  
125:4 147:17 157:2, 3,  
3 194:23  
**expecting** 180:11  
**expects** 13:14 179:15  
**expenditure** 157:14  
**expense** 124:5 156:16  
157:11 165:2 175:13  
**expenses** 155:17 157:1  
176:18 202:7  
**experience** 47:9  
**explain** 122:24 144:21  
164:18  
**explained** 185:14 189:10  
**explanation** 198:10  
**explore** 18:25 20:13  
**expressed** 123:13 142:6  
**expressing** 179:22  
**extend** 162:19  
**extension** 5:18 15:25  
**extent** 51:16 74:19  
75:17 80:9 131:12  
137:16 138:9 158:20

159:14, 25  
**extract** 187:15  
**eyes** 20:8 23:21, 22  
80:17 81:3, 4 207:21  
  
< F >  
**fact** 21:17 56:9 121:24  
124:1 125:18 130:5  
136:8 139:22 142:2  
146:19 147:8 198:20  
**factor** 121:22  
**Fair** 60:10 74:23 140:8  
**fall** 160:13 161:12  
**familiar** 10:8, 21 18:22  
52:23 114:21 128:6  
167:14 169:2 181:8, 18  
**familiarity** 164:10  
**far** 4:15 11:4 19:21  
21:11 76:2, 3 179:1  
190:18  
**fashion** 142:9  
**favorable** 117:16  
**features** 125:18  
**feedback** 67:10 68:18  
**feel** 75:19  
**fees** 185:12  
**FERC** 64:4, 5  
**figure** 113:9 151:25  
185:15 186:14 189:23  
**figures** 112:5  
**file** 49:6, 9 50:21 74:8  
129:1 162:5 175:24, 25  
189:17 191:12 197:4  
201:22  
**filed** 4:19, 21 5:5 11:1  
15:4, 7, 8 19:19 49:7  
77:18 80:8 100:16  
101:19 102:16 114:16  
178:17 184:13, 20  
189:11 197:5  
**files** 114:4  
**filing** 7:2, 17 15:6  
16:19, 20, 21 49:1, 3  
101:5, 6 158:14 161:21  
179:7, 9 180:10  
**filings** 4:6  
**fill** 65:12  
**finalized** 105:17, 22  
178:15, 16, 18  
**finally** 155:19  
**financial** 13:1 79:22  
125:8, 25 126:3, 8  
127:24  
**financing** 153:14, 21  
**find** 70:8 120:3  
**finding** 195:15  
**finds** 126:14  
**fine** 7:8 51:22 52:2  
182:7  
**firm** 206:5  
**firmly** 125:21  
**First** 4:9 5:2 6:5 7:3  
9:2, 24 19:2, 8 52:17

<p>56:17 60:13 63:7 70:1 78:2 79:12 100:10 102:11 103:11 106:17 108:6 110:23 114:1 115:5,9 127:17 129:7 132:14, 22 135:4 139:14 140:24 141:2, 16 144:8 146:10, 13 151:21 153:20 165:11 166:21 167:9 168:1 169:20, 22 170:1 171:10 175:18 178:24 202:12, 23 203:6 fit 105:8 171:14 five 55:20 169:6 170:15 171:14, 19, 21, 23, 24 172:13, 15 five-year 171:12 198:15, 16 fleet 153:17 flow 133:7 143:2, 21 Foley 2:13 folks 50:10 follow 140:18 143:9 175:9 202:3 followed 104:10 following 49:22 52:15 58:21 100:8 109:24 121:15 146:11 154:11 157:13 202:13 follow-on 124:25 follow-up 191:9 forecast 101:8, 11 105:1 161:20 168:19 foregoing 206:8 forget 103:12 form 106:20 formal 20:1 22:9 formally 19:20, 22 22:15 format 70:23 forth 72:15 forward 16:12, 15, 21 17:2, 4 126:22 129:19 131:22 156:13 168:24 175:9 194:19 198:24 forward-looking 154:24 found 185:18 foundation 50:24 51:13 four 14:9 55:1, 21, 22 102:23 103:9 Fox 12:5, 13, 17 15:5 16:2, 6, 17 17:6, 13 99:17 frame 56:16 75:4 106:4 108:20 131:19, 20 141:19 143:23 171:13 178:19 free 75:19 freeze 146:7 frequently 115:25 116:4, 9 front 55:9 111:24</p>	<p>116:20 123:18, 19 FTE 160:24 163:2, 5, 9 fuel 141:21 full 172:15 fully 129:3 133:3 146:8 172:12 functions 152:9 fund 110:18, 19 115:24 116:5, 18 142:20 186:11 fundamentally 58:23 68:22 funded 116:22 funds 187:13, 15, 17, 21 further 5:19 59:9 75:8 122:21, 25 123:3, 11 136:18 147:20 149:15 177:22 189:3, 6 192:16 193:15 197:11 199:1 201:11 future 133:15 139:6 172:6, 16 174:16 176:10, 11, 21 195:1</p> <p>&lt; G &gt; GAAP 157:13 175:4, 6 gas 12:7 14:20 187:9 gather 168:3 Gazette.Net 110:4 general 5:10 126:2 130:18 Generally 53:1, 9, 12, 13 54:15 67:4 78:7 98:1 110:3 144:21 154:8 158:5 165:4 199:16 generate 132:17 170:13 generation 69:22 70:10 71:13 98:21 99:19 gentleman 115:3 getting 20:7 80:21 180:13 Gilman 2:14 give 7:4 20:10 50:13 58:24 69:17 72:13 74:10 98:8 99:7 102:15 110:11 133:5 give-and-take 68:24 given 100:20 118:25 119:2 123:14 128:14 178:15 glad 62:3 GLU 18:14 19:5 52:19 56:23 58:24 59:1 159:6, 14, 22, 23 GLU's 59:6 63:15 go 5:7 7:19 9:6, 24 13:1 14:2 23:13, 17, 18 46:24 55:18 69:25 76:16 77:25 97:4 98:8 102:10 105:10 106:12 107:17 111:7, 14 136:9 147:25 152:16 153:14, 19 156:12 166:7 175:1</p>	<p>176:25 189:8 191:2 195:7 199:24 goes 23:20 121:18, 19 161:14 going 5:6 8:2 16:21 20:6, 11 22:6, 12 53:6, 23 55:9 63:18, 21, 22 73:22 75:19 80:16 102:10 103:1 117:19, 21 120:9 133:5 135:8, 23 138:21 142:17 155:21 159:21 161:25 162:12 166:21 168:24 169:13, 18, 19 171:3 173:14, 25 175:9, 14, 24 182:23 183:10 184:23 194:13, 15 195:8 201:22 Good 10:3, 4 18:19, 21 50:13 64:19, 20 77:7, 8 124:20, 23 125:24 160:8 179:10 190:11 192:4 197:4, 15 201:4, 15, 16 gotta 175:3 gotten 112:5 governed 47:1 governing 62:21 Gramann 1:17 206:5 granted 59:1 GREAT 2:8 18:19 52:11, 19 56:20 145:12 157:22 158:18, 22, 24 185:3 190:7, 8 greater 129:23 144:2 GROUP 1:5 2:12 3:14 54:7, 22 56:14 70:10 78:24 111:18 120:17 125:13 152:25 159:10, 11, 24 166:16 groups 69:23 126:21 159:9 guarantee 18:11 122:11 guaranteeing 18:3 guaranty 204:4 guess 5:2 6:18 9:2 46:3 65:19 69:11 71:1, 1, 18, 22 75:2, 6 111:18 113:13, 13 114:1 115:2, 5, 8, 13 116:12 118:10 121:1 122:1, 24 123:17 124:9, 10 125:6 129:7 130:25 133:6 143:25 149:23 159:8 172:10, 18 173:20 180:8, 12 190:16, 21 guys 70:16 106:25 173:11</p> <p>&lt; H &gt; Hahn 1:24 80:2 183:9, 12 184:1, 4, 7, 25 185:6, 17 188:17, 24 189:9 191:11 208:15 209:16</p>	<p>half 13:1, 3, 5 14:8 69:14, 20, 21 70:8 71:11 72:24 Hamilton 3:11 hand 173:14 handed 110:4 handled 52:25 hands 60:22 hang 123:3 happen 131:13 162:12 182:19, 23 happened 179:13 happening 60:15 happy 58:16 190:5 harassing 5:22 hard 105:25 127:14 195:1, 2, 2 hate 125:20 Hawaiian 78:21 head 116:3 123:24 141:17, 24 142:10 147:15 160:23 163:1 167:20 168:6, 16, 17, 20 171:7 197:19 198:5, 15 headquarters 163:11, 14 hear 149:5 184:4, 7, 9 189:4 193:22 heard 197:21 HEARING 1:20 4:4 7:11 205:21, 25 hearings 4:5 HEINEMANN 2:9 18:16, 18, 19 20:12, 19 21:4, 7 22:23, 24 23:15 24:2 46:2, 7, 9, 11, 14 48:11, 13, 19 49:2, 5, 14 50:20 51:9, 22 52:2, 6 53:2, 8 55:11, 16, 18, 23, 25 57:10, 20, 23 60:5, 7 64:12 157:17, 20, 21 160:2 207:6, 8, 12, 14 208:10 Heinzen 3:14, 15 6:12, 18, 25 7:9, 14, 18 69:5, 7, 25 70:3, 16, 25 71:18 72:1, 5, 6 73:24 74:2, 18 75:8 111:16, 17 118:24 119:4, 7, 15, 20 128:19 131:6, 8 136:18 137:3 139:8 142:11 143:9, 12, 14 144:12 166:10, 12, 14, 15 169:10, 12, 15, 17 170:24 171:2 172:9, 24 173:3, 11 177:22 190:16, 20 207:9, 11, 16 208:1, 3, 12 Heinzen's 138:7 HELD 1:20 7:21 76:18 107:19 111:9 139:5 148:2 help 117:12</p>
--	---	--	--

helpful 71:22  
 Hi 111:17  
 higher 147:7 165:4  
 highest 147:5  
 highlighted 189:18  
 highlights 190:3 191:11  
 highly 122:12 137:18  
 138:2, 4  
 hinge 127:2  
 hired 165:5  
 hold 8:3 16:2, 6, 16  
 73:5  
 holding 145:3  
 Honor 7:25 9:18 10:12  
 11:10 50:23 76:12  
 79:5 102:4 103:11  
 106:15, 24 107:11, 23  
 149:16 166:12  
 hope 109:23 115:24  
 116:4 157:18  
 hopefully 62:6  
 horses 73:21  
 housekeeping 190:21  
 Huber 1:24, 24, 25  
 Hubert 3:23 197:1, 4,  
 15 200:1, 2, 14 208:22  
 209:20, 22, 24  
 hundreds 102:19 103:1  
 127:22 128:3  
 Hunger 191:13  
 hyperlink 191:11, 12  
 hypothetical 154:12  
 155:23 156:22 193:23  
 194:19 203:7

# < I >

Iberdrola 79:1  
 IBS 167:5  
 idea 14:25 71:6 119:9  
 164:5  
 identification 10:14  
 48:24 102:8 107:22  
 121:19  
 identified 8:6 16:20  
 17:19 52:17 97:13  
 99:22 104:25 106:9  
 109:1 112:15 120:10  
 124:18 130:10, 11, 15,  
 20 139:8 151:22 152:1,  
 2 153:9, 10 170:2  
 182:18  
 identify 58:12 123:1  
 124:7 129:8 153:11  
 identifying 121:8 166:22  
 Illinois 11:1, 4 13:13, 25  
 14:19 15:1 163:5, 9, 10,  
 12, 13, 15  
 Illuminating 79:1  
 Illustrative 103:19  
 imagine 50:13 72:12  
 127:25 161:1  
 immediate 125:3 140:6  
 141:10 168:17, 18

immediately 167:19  
 171:6, 8, 10  
 impact 15:1 140:15  
 144:10  
 impacted 159:2  
 impacts 158:7  
 implement 140:11, 17  
 implementation 22:2  
 implemented 22:12  
 62:20 63:19, 22  
 important 115:11 125:6,  
 7, 8, 10 126:13  
 Importantly 117:22  
 imposed 199:8, 13  
 improve 117:10  
 improvements 117:10  
 inappropriate 127:21, 24  
 Incl 1:21  
 include 11:3 48:5 50:2  
 64:6, 8 65:3, 6, 9, 12  
 71:23 72:11, 23 99:2  
 100:5 107:6 145:9  
 147:6 201:20 202:9  
 203:19  
 included 62:15 63:22  
 64:4 101:8 102:17  
 108:7 130:18 147:9  
 159:7 160:18, 20  
 includes 47:16 108:21  
 145:6, 10 185:11 186:1  
 including 66:8 123:20  
 124:12 147:14 201:6  
 inclusion 197:25  
 income 110:20 140:12  
 incomplete 16:19  
 incorporate 8:6  
 incorrectly 75:20  
 increase 59:3 199:17  
 increased 203:5  
 incur 131:16  
 incurred 124:4 129:3  
 138:10 139:17 156:2  
 157:2, 14 193:24  
 194:22 195:14  
 incurring 174:14  
 incurs 174:25  
 indefinitely 137:13  
 independent 53:20 55:1,  
 4, 21 57:13, 25 69:23  
 98:13 120:18, 21 126:6  
 158:8 159:1  
 independently 129:7  
 INDEX 3:25  
 Indianapolis 79:2  
 indicate 19:4 46:17  
 58:21 59:10 114:8  
 158:11  
 indicated 62:11, 12  
 66:16 157:1 178:12  
 indicates 62:8 110:22  
 indication 49:20  
 indications 125:24

indicative 125:15  
 indirect 186:21  
 individual 97:23 99:1  
 125:21 138:1 153:3  
 159:9, 12 161:23  
 164:21 165:3  
 individually 121:2  
 INDUSTRIAL 3:14  
 111:18 166:15  
 industry 78:7  
 infer 114:11  
 influence 19:9, 15 23:12  
 46:17 52:20 58:24  
 75:18  
 information 16:25 17:4  
 50:14 103:6, 8 105:2  
 126:8 165:7 184:17  
 186:7 192:12 193:6  
 197:8 200:8 201:8  
 Infrastructure 78:24  
 initial 105:14  
 initiate 162:8  
 initiative 138:16, 20  
 input 67:13 68:18  
 72:13 74:10  
 insistence 141:8  
 insofar 159:23  
 instance 129:8 175:8  
 INTEGRYS 1:5 2:12  
 4:3 65:25 66:8, 14  
 78:5 79:23 80:18  
 112:12 116:9 124:19  
 125:12 126:4, 16  
 166:23 181:25 187:11,  
 14  
 intend 6:1 65:15, 24  
 intended 5:22 78:20  
 112:17 114:3 204:4  
 intending 49:9 127:12  
 intends 147:13 162:7  
 intent 74:24  
 interest 52:21 56:24  
 57:2 59:13, 21 60:13,  
 19, 21 61:19 118:20  
 119:11, 23 120:4, 19  
 121:4, 5, 16 122:9  
 126:21 168:15, 20  
 interested 115:2, 13  
 129:2 130:8  
 interests 61:17 120:15,  
 23, 24, 24 121:11 179:23  
 internal 50:3  
 interpretation 57:18  
 122:19 195:21  
 interpreted 50:2 188:5  
 interpreting 180:17  
 intervenors 117:23  
 118:18 119:9 122:17,  
 19 130:23 140:24 158:3  
 intimidation 189:23  
 introduce 6:14  
 investigation 14:20

investment 110:18  
 155:10 185:3, 12, 16  
 investor-owned 59:6  
 investors 118:21 119:11,  
 23 120:7, 16, 24 121:11,  
 17 122:10  
 involve 66:6  
 involved 66:23, 24  
 74:20, 20 125:18  
 181:21, 22 188:25  
 involving 100:9  
 irrespective 204:6  
 issue 5:10 23:23 134:6  
 137:5, 11 139:3, 5  
 158:1, 13 174:9 194:20  
 197:19 198:22  
 issues 19:5, 8, 9, 11, 18,  
 19, 22 204:23, 25  
 item 165:3 198:5, 8  
 199:7, 12  
 items 4:9 6:5 46:11  
 52:8 171:22 172:8  
 192:22  
 its 52:21 60:19 67:3  
 72:17, 25 101:13 117:2,  
 12, 13 129:19 135:18,  
 24 146:6 160:16, 25  
 161:12 162:7, 11 163:1  
 164:8, 12, 13 165:10  
 175:25 198:2  
 IUOE 3:7 64:14

# < J >

JACKSON 2:14 149:4,  
 15, 24 188:14 201:14  
 204:12 207:23 208:6  
 209:2  
 JAMES 3:3 149:2  
 184:4, 7 208:5  
 January 15:9 114:16  
 134:16  
 JENNIFER 1:16 206:4,  
 16  
 jobs 140:21 141:3, 6  
 JOBS4WI 3:18  
 JODEE 192:1 208:18  
 JOE 2:4 188:24 197:15  
 JOHN 77:4 207:18  
 joint 11:21 12:17, 19  
 14:15 16:4, 7, 11, 20, 23  
 17:10 69:9, 12, 18 70:4,  
 20 71:3, 5, 7, 8 72:22  
 73:12, 17 74:5, 8 75:3  
 97:21, 22 98:23 99:1, 2  
 142:2 153:25  
 Judge 77:22 114:24, 25  
 July 13:5, 7, 17, 18, 24,  
 25 14:7, 12, 13, 13, 17  
 June 13:3 54:13  
 jurisdiction 63:10 75:22  
 76:5, 7  
 jurisdictional 63:9 73:10

Justin 3:22 136:25

&lt; K &gt;

keep 143:18, 19 178:25

Ken 97:13

kept 144:3

kind 68:23 126:8

141:25 181:2 202:24

KIRA 3:3 190:25

knew 15:4

know 4:11 5:4 6:4

13:13, 16, 21, 22 15:15,

17, 19 16:1, 6 17:18, 20

23:13 48:2 51:3, 12

55:13 58:6 59:5, 7

62:3 63:9 64:3 66:10,

12 68:2 70:12, 13, 16,

22 71:17, 22 72:1, 18

73:1 74:3, 19, 23, 23, 25

97:23 98:1, 2, 4 99:19,

24, 25 103:25 105:4, 6,

16 107:1 113:4 115:6,

15 120:12 126:18

130:14, 17 133:8

135:23 136:6, 8, 13

152:14 153:1 155:3, 18,

23, 25 156:20 159:20

161:24 162:4 164:2, 4,

6 165:7, 20, 24 167:7

179:5, 20, 23 181:8, 13,

14, 23 182:6, 23 184:10

190:25 195:16 198:10

knowable 131:17, 21

knowing 135:8

knowledge 16:2 60:14

99:15 161:3, 6 179:25

184:18 192:14 197:9,

10, 21 201:9

known 131:17, 21

Kollen's 190:20

Kothari 62:25

&lt; L &gt;

labor 164:13, 15 165:4

172:23 173:1

laid 50:24 51:13 54:21

LAKES 2:8 18:19

52:11, 19 56:20 157:22

158:18, 22, 25

Lane 2:25

language 169:9 199:16

Lardner 2:13

large 47:16 54:19, 24

56:23 187:14

largely 126:9

larger 152:14, 25 153:13

LARSON 201:1, 4, 15

204:19 208:25

lasts 172:19

late 181:20

Lauber 1:24 4:18 6:24

123:5 150:7 151:1, 4

160:8 166:11, 15 171:3

178:3, 23 185:24, 25

186:18, 19 187:23, 23

190:22 191:5 194:20

198:6 208:7 209:18

Lauber's 4:12 185:23

187:4 193:3, 20 194:8

LAW 3:10, 15 73:8

lawyers 185:3, 15

lay 52:24

layoff 147:16

layoffs 140:2, 5, 8, 12, 17

141:12

layout 155:25

leaders 67:8

leadership 66:21, 25

67:2, 24 68:4, 7, 13, 17,

23

leave 24:1 163:24

170:22, 25

leaving 194:9

left-hand 180:12

legal 57:9 74:16

118:23 119:13 158:14

162:6 185:11

legitimate 51:8

letter 80:7

level 133:4 185:1

186:11

levelization 158:1, 15

leverage 127:7

Leverett 1:23 9:4, 5, 9,

21 10:3, 13, 14, 16

11:15 46:5 47:6 48:22,

22, 24 49:13 50:25

52:5 64:19 69:2, 8

70:18 72:7 75:13

122:11 153:18 185:19

207:3 209:9, 10, 11

Leverett's 185:20

life 138:19 154:24

155:3, 10, 10, 18 176:9

177:9

lifecycle 138:15, 25

lifetime 157:15

LIGHT 2:24 79:2

likelihood 171:16 201:22

limit 51:20 204:23

limited 46:19 141:19

145:13 205:2

limits 55:19

line 12:21 16:10, 13

17:3 19:4 46:16 52:14,

15 59:14, 25 78:14

79:18 97:10 112:23

117:21 121:7 122:17

124:13 127:4 128:20,

24 136:4 152:16, 16, 17

156:17 167:25 168:1, 3

173:16, 18, 21, 24 174:3

176:23 181:16 185:24,

25 186:19, 19 187:23,

23 192:10, 20, 21, 22

194:25 199:3

lines 17:22 58:21 60:11

61:7 121:12 122:14

128:21 171:4 173:15,

19 184:24 185:19

186:19, 24

linking 178:25

list 4:10, 16 7:16, 23

8:7 11:3, 8 106:11

108:21 139:15 201:12

listed 7:24 99:9 100:25

litigated 127:19

little 59:9 121:1 157:24

163:10 199:1

live 202:20

LLC 2:13, 17

LLP 2:4, 8

load 69:13, 19, 20 70:6,

11 71:10, 10, 13 72:23

loads 97:21

LOCAL 3:7 64:21

66:17 160:9

localized 47:17

LOEHR 3:3 7:25 8:9

10:2, 11, 15 11:10, 16

18:13 79:14 80:15, 23

97:3, 6 102:4, 9 103:11,

17 106:15, 18, 24 107:5,

8, 23 108:5 111:6, 12

139:25 149:19 151:18,

20 157:16 166:19

188:14 193:18 195:22

207:5, 20, 22, 25 208:9,

21

Loehr's 111:19

Lois 3:23 197:1 208:22

long 56:16 193:5

longer 153:22 171:11,

14, 15 189:25 195:7

long-term 146:23

147:11 152:11, 15

153:14 155:9 168:19

176:8

look 19:3 49:18 52:7, 9

102:12 107:12 109:7

113:22 120:21 123:5

124:1 138:17 152:22,

24 153:14, 16, 17

154:18, 23 155:3, 17

156:8 159:8, 8, 9, 10

168:23, 24 169:19, 20

172:6 173:16, 18 175:3

176:8, 9, 11 177:9

looked 120:17 141:14

145:16 164:25

looking 46:15 59:8

61:16 66:6 131:18, 22

152:23 156:18 164:23

171:10 177:17 180:9

198:9

looks 103:19

losses 99:3

lost 140:21 141:3, 6

lot 141:14 156:15 157:7

loud 98:11

Louisiana 78:23

low 110:20

lower 110:25

Lowry 191:10

LYNN 1:17 206:4, 12

&lt; M &gt;

ma'am 15:6 16:9, 13

17:21 67:21

machine 206:10

Macquarie 78:24

Madison 1:23 2:9, 15,

25 3:5, 11, 16

Main 14:21 153:4

200:9

maintain 163:4, 8

maintaining 163:1

maintenance 165:2

major 58:21 67:3

124:24

majority 47:25 49:23

162:22 172:3

making 73:15 118:15

121:18 162:25 198:2

manage 166:2

managed 58:23

management 140:13, 16

management's 67:17

March 1:21 5:12 110:5

178:14 184:21 206:8, 17

margin 69:15, 20, 21

70:8 71:12 72:24

mark 10:11 46:2 48:17,

19 102:4

marked 10:14, 16 48:24

102:8, 11 106:25

107:22 209:8

market 78:9, 9, 11

124:22 142:13

marking 107:14

Maryland 110:5, 19, 24

111:5

Massachusetts 105:3

match 131:12 155:16

156:15 174:17 176:14

182:10 195:6

materially 104:3

matter 20:17 73:8

matters 8:12

Mayfair 3:19

McHale 114:23 115:1

mean 17:2 19:8, 18, 18

22:1 51:7, 24 61:5

65:19 71:4, 6 73:1, 8

75:3 109:11 122:3

126:2 127:12 128:9

132:2 142:16 144:22

152:15 155:5 156:22

163:24 171:24 177:3

180:16

meaningful 137:16, 18

means 55:5 68:6 99:24  
101:15 108:19 112:1  
115:10, 17 137:18  
144:23 187:2  
meant 19:11 78:5  
125:14  
measure 113:6 126:22  
185:1  
measured 115:20  
measures 110:21  
mechanics 72:3  
mechanism 54:5 129:16  
130:12, 13 135:17  
mechanisms 117:9  
medium 167:20 171:6,  
9, 12  
meet 65:7 66:21 67:1,  
24 121:3  
meeting 54:4, 14, 20  
74:24  
meetings 66:23, 24 67:7  
68:6, 12, 15  
meeting's 54:13  
meets 122:13  
member 50:6 61:17, 19  
members 53:19, 22  
159:2  
memorialized 63:24  
mention 191:8  
mentioned 100:22  
106:9 108:6 144:14  
153:1 191:13 205:15  
merge 158:9 161:8  
merger 13:11, 12 66:11  
75:18 78:20 80:9  
100:16, 19 101:5, 5, 14  
104:2, 17, 20, 22, 23, 24  
105:4, 5, 12, 13, 16, 21  
106:4 108:22, 25 113:7,  
8, 8 114:5, 17 115:25  
116:9 120:3 122:7, 18  
123:6 125:3 126:4  
127:6 139:4, 19, 21, 25  
140:3 141:9 144:16, 18,  
22 145:1, 17, 19 158:14  
180:10 181:17 187:10,  
11 189:1 195:9 202:4,  
13, 24 203:3  
mergers 100:6, 7, 9, 10,  
12, 13, 15, 16, 24 101:18  
104:6 105:8 106:9, 20  
108:7, 17 109:1, 6, 15  
116:1, 1 124:2 137:22  
141:14 145:6 146:20  
147:8 180:1  
merging 145:4  
Merit 206:13  
met 13:11  
MICHAEL 1:9  
Michigan 2:21 127:14  
128:7, 13, 15 178:4  
Michigan's 127:15 128:8

middle 14:13 16:16  
109:21  
midsize 78:4, 6, 10  
Mifflin 3:15  
million 17:20 97:12, 19,  
24 98:5, 15 99:15  
110:19, 19, 23, 24  
113:10 133:10, 19, 25  
134:4, 18, 19, 21, 22, 24,  
24, 25 135:11, 14  
154:13, 15 155:6 185:5,  
5, 10 186:10  
millions 127:22 128:3  
Milwaukee 2:5, 22 3:19  
206:2, 6, 21  
mind 19:1 120:13  
123:10, 24 133:23  
mine 109:10  
Minnesota 80:8 105:20  
minor 199:15  
minus 105:7  
minute 14:18 20:7  
52:7 100:2 109:20  
146:10  
minutes 115:15 148:3  
misidentifying 129:12  
MISO 47:2 142:3  
153:17, 24  
missed 143:16  
missing 8:13 48:22  
model 98:2  
modeling 12:20 16:14  
modifications 67:13  
modified 157:24  
moment 13:23 49:16  
99:7 102:15 110:11  
122:16 154:6 168:4  
169:18, 20 173:16  
monies 123:14  
monitor 128:25  
months 14:10  
morning 10:3, 4 18:20,  
21 64:19, 20 77:7, 8  
153:18 160:8  
motion 5:3, 4, 5  
motivated 167:19 171:5  
motivations 116:10  
move 142:4  
moved 103:12 107:24  
movement 163:18  
moving 163:11, 14  
M-related 176:3  
multiple 102:17, 17  
  
< N >  
N2000 2:18  
N234 2:18  
nail 153:19  
name 53:17 64:21  
160:8  
named 53:18  
names 20:22 106:20  
natural 12:7

nature 20:13 114:6  
176:19  
NBA 53:15, 24 54:11  
nearest 113:10  
necessarily 51:3 52:1  
159:17 171:21 172:1  
204:25  
necessary 20:9 51:5  
69:16 126:17 184:11  
necessity 15:13  
need 4:12 21:15 23:15  
24:1 50:19 51:25  
55:12 73:17 80:25  
99:20 128:14 144:24  
160:24 161:18 169:4  
175:3, 7 188:12 190:8  
198:23  
needed 50:20 69:22  
70:9, 10  
needs 65:7 189:16  
negative 144:6, 10  
146:12, 16 202:25 203:5  
negotiate 127:14  
neither 117:22 187:14  
net 17:23 101:11, 15, 15  
132:3, 17 137:13, 19  
138:20 140:10 141:15  
142:25 143:19, 25  
155:4 156:13 170:13  
172:16 176:11, 11  
177:10, 10 202:24 203:9  
never 134:20 135:14  
195:16  
new 8:7, 7 65:10 66:7  
105:16, 21 106:4  
110:15, 16 111:1  
134:16 147:3 162:8  
175:1, 8, 25 176:1  
186:1, 7, 12, 15 189:17  
202:3, 18  
NEWMARK 1:9 4:2,  
20, 23 5:25 6:4, 17 7:1,  
7, 12, 15, 19, 22 8:3, 10  
9:1, 6, 20, 23 10:13  
11:12, 14 18:14 20:17,  
21, 25 21:2 22:22  
23:16, 25 46:4, 6, 10  
48:12, 17, 21, 25 49:3, 8,  
12 50:18, 21 51:4, 14,  
19, 24 52:4 57:15 60:2  
64:13 69:3 70:2 73:22,  
25 75:10 76:11, 13, 16  
77:1, 22 79:8, 11 80:21  
81:2 97:2, 4 102:6  
103:13, 15 107:2, 6, 9,  
13, 17, 20, 25 108:3  
111:7, 10, 13 119:5, 17  
128:18 136:20 143:8,  
11 144:13 145:12  
147:21, 25 148:3  
149:17, 20, 23 150:1, 4,  
6 151:16 160:3 166:7,  
10 169:11, 16 170:22,

25 172:3 177:24  
178:22 181:1 183:1, 4,  
7, 9 188:11, 20 189:7  
190:2, 7, 12, 14, 18  
191:2, 7 192:17 193:16  
195:23 196:1 197:12  
199:20, 23 200:4, 11  
201:12 204:14 205:4, 7,  
13, 17 208:14  
News 110:5  
NextEra 78:21  
Nice 197:16  
nine 77:12  
nominating 53:12, 15, 16  
nominations 52:25  
non-actual 101:2  
nonbinding 178:8  
non-fuel 17:25 132:18  
140:22 141:18, 23  
142:6 146:22 147:10  
170:14, 16 180:23  
181:10 202:7, 12 203:20  
non-represented 162:19  
165:19  
non-transmission 56:13  
normal 162:4  
North 2:25 3:4, 18  
206:6  
Northeast 104:1 114:17  
115:1 124:11, 17 125:11  
Northern 105:21 181:17  
Nos 200:14  
note 53:2 121:9 128:24  
146:25 171:4 192:24  
noted 4:23 6:1 78:14  
notes 206:10  
notify 67:24  
noting 134:13  
November 14:14 16:16  
NSP 105:16 106:4  
147:3  
NSTAR 104:1 114:17,  
25 124:11, 17, 22 125:11  
NU 124:22  
nuances 155:24  
number 4:5, 13 7:9, 17  
48:22 49:7 57:13, 25  
102:13 104:20 106:13  
111:24 113:11, 12  
126:24 132:8 141:5  
144:16, 18, 19 147:2, 3  
160:23 161:17, 20  
163:5, 9, 15 164:11  
179:20 185:13 192:25  
199:15 202:2, 3  
numbers 121:22 161:3,  
11, 11 181:7 189:13  
numerous 118:24  
  
< O >  
Oak 3:8  
object 5:13 6:3 72:19



<p><b>objection</b> 5:21, 23 8:1 57:8, 16, 18 62:18 63:12, 14 69:24 73:15, 19, 23 74:1, 15 118:22 119:6, 13 128:16 131:5 169:8 <b>objections</b> 5:12, 14, 16, 20, 24 11:12, 13 103:13 107:25 <b>obtain</b> 187:16 <b>obviously</b> 18:22 118:6 126:2 <b>occasions</b> 118:25 <b>occupied</b> 56:2 <b>occupy</b> 58:4 <b>occur</b> 104:9 174:7 194:1 195:16 <b>occurred</b> 15:23 108:19 109:3, 17 111:19 146:21 188:8 <b>occurring</b> 123:23 157:4 <b>occurs</b> 143:23 <b>o'clock</b> 148:4 <b>O'Donnell</b> 109:6, 9 204:3 <b>O'Donnell's</b> 79:21 202:5 203:19 <b>offer</b> 61:10 147:16 195:11 <b>offered</b> 7:23 62:9 63:18 110:10 111:3 127:3 142:15 157:25 <b>offering</b> 119:16 <b>offset</b> 129:21 142:19 146:9 <b>Oh</b> 22:1 50:9 107:10 171:2 182:7, 12 191:11 202:15 <b>Okay</b> 4:20 5:1, 25 6:4, 17, 25 7:7, 14, 18 9:6, 23, 25 10:11, 13 11:12 12:13 13:7, 13, 19, 22 14:4, 6, 9, 18, 25 15:7, 11, 17, 22 16:14 17:22 19:24 20:4, 25 22:1, 23 23:3, 25 46:10, 24 48:8, 11, 21 49:8, 12, 15 50:18 51:4 52:4, 16 53:2 54:12, 17 55:3, 6 56:4, 12, 19 57:1 58:7, 20 59:8, 16 60:10, 24 61:2 62:3, 11, 18 64:12 65:3, 12, 15, 24 66:5, 12, 16, 20 67:1, 7 68:12, 21 69:1, 3 70:2 73:14 74:13 75:8, 10 76:9, 13 79:11 80:21 81:2 97:4, 12 99:15, 19 100:1 101:2, 15, 18 102:22 103:11, 13, 15 104:19 105:4 106:15 107:2, 20 108:3, 14, 17 109:24 110:11 111:7 112:7</p>	<p>113:4, 13, 22, 25 114:8, 14, 19 115:10 118:2 120:9 121:14 122:8, 16, 24 123:12 132:10, 16, 21, 25 133:10, 14, 18, 24 134:10, 13 136:6 140:5 143:8 145:12 147:21 149:20 150:1, 3 151:16, 24 152:13, 24 153:6, 19, 23 156:6, 23 158:4, 4, 17 160:3 161:7 162:1, 16, 22 163:8 164:12, 18, 22 165:8 166:1 167:8, 14 168:2 169:21, 21 170:9 173:4 174:3 175:22 177:3, 10 178:12, 20, 23 179:10, 21 180:5 181:10, 16, 22 182:5 183:1, 4 184:9, 12 185:8 186:4 188:11, 20 189:3, 8, 22 190:7 191:14 193:16 194:13 196:1 197:12 199:1, 20, 23 200:4, 11, 12 202:10 203:3, 16 205:4, 17 <b>once</b> 15:18, 22, 22 <b>ones</b> 100:16, 17 108:8 <b>one-year</b> 138:11 <b>ongoing</b> 134:6 <b>open</b> 56:4 <b>opening</b> 14:20 <b>operating</b> 60:15, 20 63:5, 7, 8, 13 64:1, 3, 11 <b>operation</b> 163:18 <b>opines</b> 169:4 <b>opinion</b> 66:19 75:21 99:18, 23 101:24 112:8 114:14 115:7 119:16 127:17 128:11 133:2 136:7, 13 138:3 140:7 142:9 147:9 153:13 195:5 <b>opportunities</b> 142:1 167:7 168:23 <b>opportunity</b> 47:20 116:3 141:17 146:5 176:14 <b>oppose</b> 76:5, 7 <b>opposed</b> 100:13 117:5 130:5 135:6 198:9 <b>option</b> 194:24 <b>options</b> 195:18 <b>order</b> 5:4 62:15 63:23 64:4, 6, 9 72:17, 20 74:11 99:21 120:2 168:21 <b>ordered</b> 142:23 <b>organization</b> 66:8 153:4 <b>organization's</b> 65:1 <b>original</b> 206:9 <b>originally</b> 189:10, 11 <b>ought</b> 116:14 130:11</p>	<p><b>outlined</b> 63:4 <b>outlines</b> 5:10 <b>outset</b> 141:9 <b>outside</b> 20:1 22:9, 15 105:14 106:7 108:19 147:1 179:3, 6, 6 <b>out-sized</b> 58:24 <b>OUTSTANDING</b> 1:5 8:12 <b>overall</b> 152:25 <b>overlap</b> 152:1 <b>Overruled</b> 119:17 <b>oversimplify</b> 53:24 <b>overstated</b> 75:25 <b>owner</b> 19:4, 17, 19, 22 47:2 54:24 60:21 61:4, 20 <b>owners</b> 19:25 20:20 21:9, 19 22:10, 14 23:8, 9 56:13 <b>owner's</b> 46:17 60:12, 19 <b>ownership</b> 52:21 54:9 59:4 <b>owning</b> 56:14  &lt; P &gt; <b>p.m</b> 148:5, 5 205:25 <b>P.O</b> 2:9 <b>page</b> 12:21 16:10 17:22 19:4 21:25 46:16, 16 52:9 58:16 59:14, 23 78:3, 13 79:18 80:2, 6, 11, 12, 12, 17, 24 97:10 98:14 100:2, 18 102:10, 11, 11 103:18 105:19 112:19 113:25 114:15 121:7 122:14 124:9, 13, 14 127:4 128:20 132:10, 11 140:20 158:2, 3, 11 166:18 167:8, 25 170:1 173:19, 22, 22 176:23 192:10, 21 197:16 199:1 207:2 <b>PAGES</b> 1:20 9:10, 10 11:20 12:4 22:21 50:22 59:10 102:19, 23 103:2, 9 107:7 149:8 151:23 152:4 <b>paid</b> 113:3, 4 116:21 142:14, 14 145:20 <b>paragraph</b> 49:20 51:18, 21 115:5, 9 132:14 <b>parallel</b> 124:25 125:5, 10, 20 126:19 <b>parallels</b> 127:1 <b>parent</b> 187:13 <b>Parkway</b> 2:18 <b>parse</b> 122:1 <b>part</b> 6:6, 13 7:20 13:11 17:12 59:20 63:23 75:17 100:21 101:13 102:23 103:2, 6, 8</p>	<p>108:24 114:20 116:25 118:13 123:23 152:10, 19 157:15 159:23 161:4 167:11 174:19 175:12 177:19, 20 202:8 205:20 <b>partial</b> 79:2 <b>partially</b> 146:8 186:11 <b>particular</b> 12:18 118:17 137:9 139:2 155:24 157:9 163:1, 4, 9 204:20 <b>particularly</b> 153:2 179:8 <b>parties</b> 4:6 127:7 128:7, 13 158:14 159:6, 16, 18 197:18 <b>partners</b> 78:25 <b>parts</b> 102:20 178:8 204:10 <b>party</b> 4:4 158:19 159:15, 23 <b>passed</b> 17:25 121:24 122:2, 4 <b>passing</b> 7:2 <b>path</b> 16:11, 14, 21 <b>Pause</b> 184:6 205:10 <b>pay</b> 139:12, 13 187:17 <b>paying</b> 115:22 <b>payments</b> 123:22 139:14 185:15 <b>pending</b> 108:13, 16 147:8, 12 <b>people</b> 23:19 80:19 112:1 <b>Peoples</b> 14:20 181:23 <b>PEPCO</b> 108:11 109:20 110:2, 6, 10 139:24 147:13, 13 <b>PEPCO-Exelon</b> 188:25 <b>percent</b> 17:24 54:8, 20 56:14 57:2 69:15, 20, 21 70:8 71:11 72:24 101:25 126:5, 24, 24 132:4, 18 133:1 140:22 146:22, 24 147:10 152:2, 10, 20, 21 153:8, 10 154:4 164:5, 8 169:5 170:14 171:17 179:11, 15 180:21 181:6, 24 199:17 202:6, 7, 12 203:19 204:7 <b>percentage</b> 180:22 181:11 202:17 <b>percentages</b> 147:5 180:11 181:9 <b>perform</b> 70:9 <b>performed</b> 79:22 97:15 <b>period</b> 60:23 104:7 131:16, 17 132:5, 19 135:3, 4, 16, 16 138:11 146:16 147:2 162:14 164:8 169:6 170:16 174:23 175:11, 16</p>
--	--	---	--

177:13 195:6  
 periodically 66:20  
 permanently 136:3  
 permission 178:13  
 permitted 124:2 139:23  
 person 70:17  
 personally 66:23, 24  
 80:5  
 perspective 69:13 118:7  
**PHILLIPS** 2:21  
 phrase 115:16 116:6  
 163:24  
 picked 105:8  
 piece 79:6  
 pieces 76:1 175:3  
 Pilo 205:9  
 pipeline 145:8  
 place 206:10  
 places 124:12  
 plan 12:19, 23 14:15  
 16:4, 7, 11, 21, 23 47:13,  
 16, 21, 23 66:10 71:5, 7,  
 9, 12, 23 72:2, 2, 3, 9, 9,  
 10, 14, 16, 22 73:13, 18  
 74:6, 8, 10, 14, 14 75:3,  
 6 99:1 166:1, 4 168:15,  
 24  
 Plankinton 206:6  
 planned 67:25  
 planning 11:21 12:17  
 14:6 17:10 20:12  
 46:18 47:2, 10 64:23,  
 25, 25 65:3, 6, 18, 22, 25  
 66:3, 6, 13 67:2 69:10,  
 12, 19 70:5, 20 71:3  
 97:22 140:2 142:4  
 153:25 161:24 186:9  
 plans 65:1, 9, 12 67:8,  
 10, 13 68:14, 18, 21  
 136:1 182:24  
 plan's 166:5  
 plant 145:8  
 platform 127:7  
 Please 52:7 78:17  
 110:7 127:4 205:21  
 pleasure 147:23  
 plus 69:14, 19, 21 70:7  
 72:24 105:6  
 point 66:12 71:1 78:2  
 79:5 112:14, 25 120:1,  
 2 123:17 138:13, 25  
 139:22 166:5 174:24  
 185:21 193:2 204:19,  
 21, 22  
 pointed 147:1  
 points 59:8 77:24  
**POLICY** 3:10 175:10  
 portfolios 97:20 98:22  
 portion 20:9 59:12  
 60:12 115:24 116:5, 7,  
 18, 23 117:7 201:17  
 203:18  
 position 50:4 58:8 60:8  
 122:18 163:10 179:14  
 193:23 197:23 199:6  
 positions 65:13, 13  
 127:19  
 positive 66:17  
 possibility 15:24 136:3  
 179:4  
 possible 19:24 131:10  
 154:1 164:7 165:17  
 167:4 180:24  
 post-acquisition 147:15  
 188:6  
 post-transaction 187:8  
 potential 17:10, 18 19:9  
 152:1, 3 153:6, 8, 20, 22,  
 23 158:7 168:25 175:8  
 182:15 186:16  
 potentially 141:6  
 153:16 154:2 155:16  
 156:12 180:25  
**POWER** 2:24 48:5  
 49:21, 25 52:19 79:2  
 105:21 145:8 181:17  
 187:9  
 powers 50:2  
 practice 179:2  
 practices 153:1  
 precede 192:10  
 precedent 13:10  
 predict 195:2  
 prefilled 149:12 151:12  
 preliminary 4:9 8:11  
 79:21  
 pre-merger 115:19  
 premium 111:20, 25  
 112:3, 7, 9, 10, 11, 16  
 113:2, 4, 17, 19, 19, 20  
 115:16, 17, 19, 23 116:6,  
 16, 18, 21 117:2, 4, 4, 8  
 123:19 139:11, 12  
 142:13, 20 145:19  
 146:2, 6, 9 186:22  
 187:1, 17  
 premiums 117:14  
 prepare 9:9 50:25  
 51:15 77:9, 12 102:2  
 108:22 149:7 151:4  
 184:13 201:4  
 prepared 9:9 51:1 72:9  
 73:13 77:9, 12 103:20  
 108:24 149:8 151:4  
 192:4, 5 201:5  
 preparing 114:5 119:8  
 120:13, 15  
 prescribe 73:2  
 prescribes 73:16  
 present 155:4 176:11  
 193:19  
 presentation 80:1, 5  
 188:17  
 presented 54:3 98:6  
 145:24 160:15 161:4, 12  
**PRESIDING** 1:9  
 press 128:10  
 Presumably 143:4  
 pre-transaction 112:13  
 pretty 171:20 201:25  
 prevent 60:14, 16  
 previously 178:12  
 186:13 204:23  
 price 112:4, 13, 25  
 113:7, 20 115:18, 19, 23  
 printouts 107:7  
 prior 4:5 124:1 145:16  
 proactively 163:17  
 probably 5:2 51:25  
 53:23 103:25 113:11  
 156:8 167:1  
 problem 198:19, 19  
 problems 52:10, 17  
 proceed 21:3 192:10  
 proceeding 11:5 13:15  
 19:21 20:2, 10 22:9, 15  
 52:12 59:3 63:23  
 64:22 118:18 129:18,  
 18 130:1 131:18 134:6,  
 7, 8, 11, 12 135:15  
 139:6 143:2, 6, 24  
 151:7 160:12 161:5  
 162:10 163:5, 19  
 174:10, 13 179:14  
 184:14, 21 189:1 192:6  
 197:6 201:6  
**PROCEEDINGS** 1:10  
 4:1 10:6 46:1 97:1  
 184:6 205:10 206:8  
 process 47:2, 10 52:25  
 53:11, 24 54:16, 18  
 67:21 109:22  
 processes 109:8  
 produce 136:10 138:20  
 176:25 177:11  
 produced 16:15  
 producing 6:8, 11  
 product 131:22  
 production 6:6  
 Professional 206:13, 16  
 Program 14:21 200:9  
 project 50:3, 3 155:18  
 156:9 164:23 165:1  
 177:9  
 projecting 65:3 156:9  
 172:16  
 projections 161:13, 15  
 projects 47:13, 16, 17, 18  
 156:7, 25, 25 172:17  
 promised 110:22  
 proper 50:24 51:13  
 175:6  
 property 48:5 49:25  
 proponent 142:7  
 proposal 131:2 134:1  
 135:12 161:7, 8 162:18  
 181:19, 23 198:4  
 202:10 203:4  
 propose 14:14 54:10  
 61:5 154:16 155:11, 22  
 156:18  
 proposed 11:6 12:5  
 18:24 19:13 23:4  
 52:12 58:14 62:13  
 78:22, 25 117:24  
 118:19 123:15 126:4  
 127:25 128:23, 25  
 136:8 140:23 141:5  
 155:14 162:10 165:9  
 180:15 181:17 186:20  
 195:19 199:11  
 proposing 12:8, 10, 17  
 16:2, 6, 16 60:18  
 154:11 158:12 181:11  
 199:7  
 proposition 47:24 48:3  
 prospective 135:6  
 protect 5:5  
 protected 129:11  
 protective 5:4  
 prove 118:19 119:22, 25  
 120:2  
 provide 16:11, 14 50:9  
 55:15 67:10 68:17  
 78:17 79:6 106:19  
 110:20 154:25 160:24  
 161:19 178:3  
 provided 17:1 18:23  
 50:10 55:6 106:23  
 160:22 185:17 186:7,  
 13 201:18  
 provides 121:23 202:2, 5  
 provision 56:12 204:3  
 provisions 52:24  
 proxies 124:19 126:15  
 proxy 124:23  
**PSC** 49:7  
**PSC-Detmer-1** 99:12  
**PSCW** 52:11 61:11  
 102:13 106:22 107:3,  
 21 109:12, 16 113:23  
 132:2, 9 170:4  
**Pub** 69:14, 19 71:11  
 72:23 73:5 134:15  
**PUBLIC** 1:2, 22 2:13  
 4:5 11:22, 24 12:3, 4  
 15:13 16:25 21:1 46:8  
 64:7 70:7 72:12 73:1,  
 10, 11 80:6, 24 97:2  
 99:5, 11 100:7 105:20  
 115:3 118:21 119:12,  
 24 120:7, 16, 25 121:4,  
 5, 12, 17 122:10 158:24  
 179:24 182:1, 3, 12  
 187:12 189:14, 19  
 199:25 200:5, 11 202:9  
 205:1 207:13, 24  
 publicly 12:25 189:25

published 110:5  
pull 20:9  
purchase 60:18 61:3, 10,  
12 62:1  
purchasing 61:17, 19  
purpose 125:22 197:25  
purposes 107:15 134:17  
158:19 159:5 194:5  
pursuant 50:1  
put 4:13 14:12 46:2  
55:8 63:5, 7, 10, 12  
64:10 72:14, 20 74:9,  
11 75:6 101:22 121:1  
126:21 129:19 137:9  
154:22 155:8, 11, 14  
176:3 181:15 194:19  
199:24  
puts 121:22  
putting 73:20

## &lt; Q &gt;

qualifications 54:20  
qualify 165:1  
quality 121:21  
quantifiable 152:5  
153:7, 20, 23 154:2  
Quarles 2:3  
Quebec 79:3  
question 19:12 20:24  
21:4 22:16 52:9 55:13  
56:7 57:22 58:7 59:16  
62:4 63:23 70:1, 13  
71:8, 14 98:3, 4 102:12  
104:10 109:5, 19  
110:15 114:6 119:18  
126:19 127:9 130:17  
131:7, 9 135:7 136:12  
138:3, 7, 23 140:18  
141:2 142:11, 25  
143:10, 15, 17 144:14  
149:21 157:17 158:17,  
23 159:4 162:6 173:20,  
21, 24, 25 174:1 180:20  
182:8 184:10 198:13  
questioning 156:17  
174:4 194:25  
questions 8:2 9:13  
18:15 49:15 55:10, 12  
60:3 64:14, 16, 22 67:8  
68:14, 16 69:2, 4, 8  
75:9, 12 77:15 97:2  
111:13 117:19 128:21  
136:18, 21, 22 137:5  
138:7 139:7 144:19  
149:11 151:11, 17, 21,  
21 160:4, 5 163:23  
166:6, 11, 16, 19 167:17  
173:17 177:23 178:3,  
24 188:11 189:7  
192:11, 17, 20 193:16  
195:23 197:12 199:20  
201:17 204:16

quickly 110:13 190:22  
quite 141:19 192:24  
quote 16:11 18:1 46:17  
117:22 184:25 186:25

## &lt; R &gt;

Radio 105:20  
raise 184:11  
raised 5:20 19:5, 17, 19,  
22 21:20 63:17 142:18  
158:1, 6  
ramp-up 132:4, 19  
170:15  
range 15:20 101:25  
121:6 132:4, 17 133:1  
170:14  
rate 117:11 129:16, 17,  
18 130:1, 9, 10, 22  
131:17 134:6, 7, 7, 11,  
12, 14, 15 135:4, 15  
137:4, 8 139:2, 6  
141:10 142:22 143:1, 6,  
18, 23 144:4 146:7  
155:14 158:1, 7 160:12,  
15 161:12 162:2, 8  
163:22, 24 164:3  
167:21 172:15 174:14,  
22 175:24, 25 179:1, 3,  
6, 7, 9 195:13 199:9, 13  
201:22 205:2  
ratepayers 18:1, 1  
123:15 124:6 129:11  
130:14 139:19 142:24  
172:11 185:2 187:20  
195:15 204:5  
rates 110:25 117:8, 15  
128:4 133:12 134:16  
136:10 137:9 142:8, 16,  
17 143:5, 21 155:11  
157:5 158:15 159:3  
162:7, 9 167:22 168:6,  
9, 14 175:1, 15, 15, 16, 18,  
19, 25 176:1, 25 177:14  
193:8 203:15  
reached 19:24  
reaching 133:3 147:5  
reaction 126:3  
read 21:4, 6 51:24  
98:11 105:24, 25 115:5  
117:24 122:17, 22  
128:10 141:4 167:14,  
16, 23 170:3, 10 173:7,  
8, 24 177:1, 3 186:3  
189:21 203:23  
reading 132:6 167:24  
168:7 177:6 185:7  
187:25  
reads 180:17  
Ready 77:1  
real 190:21 205:22  
realistically 145:1  
realize 179:12

realized 139:1 140:7  
142:21 146:3  
really 13:21 63:17  
71:22 109:11 126:11  
154:18 178:9 181:14  
189:20 198:10  
Realtime 206:17  
reason 15:8, 10 158:23  
reasonable 124:19  
126:15, 22 127:1  
146:25 179:19 180:2, 4  
reasonably 124:23  
131:21  
reasons 164:1 168:13  
reassure 116:21  
rebuttal 9:10 11:17, 20  
19:1, 6 21:15, 16, 22, 24  
22:21 46:15 62:25  
77:10 78:3, 13 112:19  
151:6 157:23 184:14  
191:12 192:5 193:3  
197:5  
recall 46:22 139:8, 16  
140:24 146:7 158:5  
185:7 186:23 187:3, 25  
receipt 188:19 191:6  
200:15 209:17, 21, 23, 25  
receive 101:23  
received 11:15 12:24  
13:9 46:5 103:16  
108:4 195:3  
recept 209:19  
recognize 102:22 125:7,  
9  
recognizing 73:5  
recollection 105:23  
106:3 110:8 111:2  
recommend 174:15  
194:21, 24  
recommendation 188:3  
194:18 203:11  
recommends 54:11  
record 5:7, 14 6:15 7:6,  
20, 21 8:5, 6 9:19  
11:11 20:15, 24 21:1, 6,  
10 46:3 51:7 52:5  
53:3, 7 76:17, 18  
107:18, 19 111:8, 9  
112:6 113:2 144:14  
148:1, 2 166:8, 9  
189:21 191:3, 4 202:1, 1  
records 130:21  
recover 116:15 117:2, 7  
124:3 129:20 131:11  
133:11, 14 134:2, 19, 20  
135:1, 14 137:15 138:8  
142:16 146:5 175:2  
176:18 177:5  
recovered 113:16, 21  
117:14 137:8 175:14, 19  
recovering 177:7 187:24  
recovery 123:18, 20  
124:6 129:16 130:24

137:4 138:21 139:23  
146:1 154:8, 12, 17  
155:6 157:5, 8 175:10,  
20 186:21 187:1 188:3,  
6 192:23 193:8  
RECROSS-EXAMINATI  
ON 143:13 207:11, 12  
208:3  
recruitment 65:9  
redacted 99:14 189:19  
Redirect 76:11 145:13,  
14 183:3, 4 190:8  
195:24 199:21 204:15,  
17 207:10, 23 208:4  
209:3  
reduce 65:6 123:23, 24  
128:4 143:22 146:17  
163:15 165:10 167:20  
168:16, 17 171:7 172:18  
reduced 98:25  
reducing 168:20 186:11  
reduction 140:22 168:5,  
6, 9, 10, 13 171:20  
182:13, 15, 15 202:12  
203:20  
reductions 116:3, 4  
117:9 121:20 123:22  
141:17, 19, 22, 22, 25  
142:10 147:14, 15  
162:11 167:22 182:22  
redundant 17:17  
Reed 1:23, 24 8:8  
17:24 77:3, 4, 7 79:9,  
15 80:14, 14 97:7  
102:6, 8, 10 103:16  
107:9, 14, 20, 22 108:4  
111:14, 17 112:14  
117:18 118:24 121:12  
132:1, 1, 7 136:25  
145:16 152:2 153:9  
154:5 167:10 169:10,  
11, 12, 13 170:2, 12  
171:18 173:12, 23  
174:5 176:22, 24  
179:12 180:5, 6 181:6  
184:24 185:21 186:24  
207:18 209:12, 14, 15  
Reed's 8:1 169:2  
170:20 173:7, 14, 18  
174:11 179:17, 17  
187:5 202:20  
refer 12:13 19:1 24:4  
50:7 81:4 114:20  
120:9 184:23 207:7, 13,  
21, 24  
reference 49:7 56:8  
78:4 99:9 124:9  
172:22 186:6  
referenced 17:8 187:5  
references 98:9  
referred 80:2 115:21  
referring 79:20 112:17

117:19 118:14  
 refile 79:6  
 re-file 189:15, 22  
 reflect 203:5  
 reflected 21:10, 22  
 98:10 142:8 203:14  
 refresh 105:23 106:3  
 refreshes 110:8  
 regard 123:10 138:12, 15  
 regarding 11:5 12:17  
 79:21 101:25 158:14  
 186:4, 16 187:24  
 193:22 194:14 195:20  
 regardless 64:2, 10 66:4  
 regards 124:23  
 regional 47:1, 16, 17  
 Registered 206:13, 16  
 regulated 73:7 135:19  
 167:1 187:8, 18  
 regulators 127:13, 15  
 regulatory 12:24 13:8  
 62:22 108:24 109:8  
 127:7  
 reject 156:11  
 relate 151:22  
 Related 23:10, 11 60:21  
 65:9 139:21 156:24  
 171:20 176:5, 18, 21  
 179:8  
 relates 17:13 144:16  
 152:8 201:21  
 relationship 66:17 68:1, 3, 5, 22  
 relative 75:24 170:16  
 relevant 100:20  
 reliability 121:20  
 reliable 161:19  
 relied 105:3  
 relies 126:9  
 relieving 99:3  
 relitigate 127:21  
 rely 103:22  
 remain 73:6 189:17  
 remains 138:23  
 remember 170:5  
 remind 117:1  
 removal 199:16  
 reopener 204:2 205:2  
 reorganization 75:23  
 76:8  
 repeat 57:21 59:16  
 184:11  
 repetitive 75:2  
 Replacement 14:21  
 200:9  
 Reported 1:16 206:7  
 Reporter 206:13, 16, 17  
 reporters 148:6  
 Reporting 1:17 206:5  
 reports 129:1

represent 15:23 54:8  
 101:2, 4 136:25 161:17  
 181:24  
 representation 124:21  
 130:4 162:16, 17  
 representative 54:19  
 representatives 23:23  
 represented 59:4  
 162:11, 18, 23 165:13, 15  
 172:23 173:1 181:6  
 representing 64:21  
 111:17 160:9 181:9  
 request 10:17 49:11, 17  
 61:10 101:23 102:2, 13  
 106:19, 22 107:3, 21  
 115:4 118:6 131:25  
 132:8 155:6 161:1  
 170:4 174:16 179:2  
 186:8 190:25 194:11  
 195:12  
 requested 193:6, 25  
 requesting 6:14 179:5  
 requests 6:2, 5 10:5, 9  
 48:15  
 require 47:25 48:4  
 49:24 57:24 59:19  
 62:19 140:16 141:11, 12  
 required 72:22  
 requirement 54:17, 23  
 55:1 143:22 161:2  
 162:5 201:21 203:5  
 204:10  
 requirements 55:5  
 160:21 165:20  
 requires 55:21 57:12  
 126:12  
 requiring 59:11  
 research 126:6  
 reserve 69:15, 20, 21  
 70:8 71:12 72:24  
 reserving 5:23  
 resolution 5:11  
 resolved 5:9  
 resource 11:21 12:17, 19  
 14:15 16:4, 7, 11, 21, 23  
 17:10 69:9, 12, 18  
 70:4, 20 71:3, 5, 7, 9  
 72:22 73:13, 17 74:6, 8  
 75:3 97:20 153:25  
 resources 69:16 99:19  
 181:22  
 respect 14:20 15:2, 12  
 19:9 22:1, 7 48:15  
 56:7 57:5 58:4, 13  
 74:5, 24 79:4 98:21  
 101:20 104:5 110:2  
 130:24 139:24 142:12  
 153:21, 24 154:17  
 155:5 158:6, 11, 12  
 167:17 173:1, 4 192:20  
 193:4, 23 198:5, 14  
 respond 6:2 63:1

205:14  
 responding 52:9  
 response 4:25 6:7  
 10:19, 21, 22, 23 48:14  
 49:17, 18 50:9, 19 51:9  
 102:2, 13, 16, 18 106:19, 23  
 107:3, 21 108:18  
 109:12, 16 113:22  
 115:2, 6, 17 131:24  
 132:2, 11, 14 138:6  
 157:25 170:1, 3, 4, 7  
 184:5 185:8, 13, 17, 20, 21  
 186:5, 8 187:4  
 188:1 193:22 194:3  
 responses 5:11, 13, 16  
 6:19 118:6 169:3  
 190:24  
 responsibility 67:17  
 rest 5:24 205:18  
 restate 61:13 198:1  
 restriction 22:2 63:18  
 199:11, 13, 15  
 restrictions 19:11, 13  
 22:8, 12 55:5 57:4  
 58:3 60:20, 25 62:8  
 199:3, 7, 8  
 restructures 76:4  
 restructuring 76:6  
 result 59:21 75:23  
 154:14  
 results 14:16 17:8  
 retail 159:1, 10  
 retain 122:6 146:3, 8  
 retained 116:7, 22  
 retaining 115:24  
 retirement 163:25  
 retirements 65:4  
 return 171:3  
 returning 49:15  
 returns 117:10  
 revenue 137:10 140:12, 16  
 143:22 156:15  
 160:20 161:2 201:21  
 203:4 204:10  
 revenues 155:17  
 review 11:5, 6 47:20  
 80:9 99:5 103:10  
 104:11 110:7 129:25, 25  
 130:20 152:6  
 reviewable 130:7  
 reviewed 7:23 80:5, 6, 11  
 98:9 99:7, 14  
 101:13 103:6, 8 104:22  
 110:13 114:5 118:6  
 126:2 134:11 161:23  
 184:20 185:23 186:18  
 reviews 126:9  
 revised 4:18  
 revision 63:25  
 RICHARD 2:9 18:19  
 157:21 184:1 208:15  
 Ridgeview 2:18

right 6:17 7:7, 8, 9 8:8, 10  
 9:1, 2 11:14 12:2  
 20:21 21:2 22:5 23:18  
 46:6 52:4 60:6, 9  
 61:18, 21 64:13 66:18  
 67:18, 19, 22 71:16  
 73:15 77:1, 22 97:16  
 102:7 107:14 108:14  
 124:9 132:19 133:5  
 136:20 144:13 145:17  
 146:12 149:17 154:6  
 160:10, 19, 22, 25 161:9, 17, 22  
 162:8, 12, 14, 20, 23  
 163:2, 6, 20 165:11, 16  
 167:2, 4 172:14  
 173:17 176:17 177:24  
 179:15 180:7, 14, 14  
 182:1, 7, 21 188:12  
 190:2, 12, 14 192:25  
 197:20 198:13 199:4, 14  
 200:4, 12 205:13, 17, 19, 24  
 risk 195:15  
 RMR 1:17  
 Road 3:19  
 role 47:10 48:15  
 room 80:20 81:3  
 rounded 113:10  
 rounds 120:13  
 routinely 130:22  
 RPR 1:16, 17 206:4, 5  
 rule 15:21  
 rules 165:1  
 run 172:15

< S >  
 salaries 123:24  
 sale 59:12, 20  
 sample 104:3  
 satisfy 118:11 122:18  
 savings 17:23 97:13  
 98:21, 23, 24, 24, 25  
 99:2, 16 100:17 101:3, 4, 8, 10, 10, 25  
 104:6, 9, 11, 18, 22, 23  
 105:12, 13  
 108:22, 25 115:25  
 116:13, 16, 23 121:23  
 129:4, 19, 22, 23 131:3, 13, 20  
 132:3, 17, 25  
 133:20 134:4, 22, 25  
 135:6, 7, 13 136:10  
 137:3, 13, 16, 24 138:4, 9, 10, 14, 15, 17, 20  
 139:1, 1 140:7, 10 141:10, 16, 21  
 142:7, 20 143:2, 4, 5, 17, 18, 19, 20, 25  
 144:1, 2, 3, 6, 9, 11  
 145:22, 24  
 146:3, 8, 12, 16, 23  
 147:11 152:2, 8 154:15, 23, 25  
 155:12 156:16  
 168:19, 22 169:5  
 170:13 171:17 172:4, 17  
 174:17 176:2, 5, 8,

10, 12, 14, 15, 20, 25  
 177:4, 10, 10, 11, 14, 18  
 179:11, 16, 21 180:12,  
 15, 22, 24 181:3, 5, 7  
 188:7 193:25 194:12,  
 23 195:1, 5, 9, 16  
 201:20 202:2, 24 203:6,  
 14, 18 204:8  
**saying** 113:1 157:7  
 168:12 179:11 198:20  
**says** 16:10 56:13  
 112:23 173:6 174:5  
 175:5, 7 180:8 198:9  
**SC** 3:15  
**scale** 152:12, 22  
**scenario** 60:11 61:16  
 154:12 194:19  
**schedule** 5:18 15:2  
**school** 115:8  
**Schott** 149:1, 2, 5, 7, 25  
 188:12 208:5 209:13  
**scope** 66:7 71:20, 23  
 72:1, 8, 8 74:3, 4  
**SCOTT** 151:1 208:7  
**screened** 100:8  
**seat** 52:18 56:4, 7, 15  
 57:6 58:5, 8, 10 59:2  
**seats** 53:12 55:6 56:1  
**second** 13:1, 3, 5 14:8  
 58:12, 21 100:10, 23  
 107:12 111:8 113:25  
 114:15 115:13 123:4  
 124:24 141:16 146:14  
 152:6 156:23  
**secondly** 135:5  
**Section** 50:1 56:19  
 153:2, 4, 7 154:3 170:7  
**securities** 56:15  
**security** 56:13  
**SEE** 3:25 10:19 16:12  
 19:6 52:10, 12 56:3  
 74:14 75:6 106:2  
 108:10 110:8, 25 126:1  
 129:4 132:13 142:1, 7  
 144:8 147:19 152:11  
 154:6 155:12 159:25  
 167:21, 22 168:13  
 171:17 172:11 193:2,  
 12 197:16 202:1  
**seeing** 168:6  
**seek** 60:11 61:3, 11  
 62:1 124:6 129:20  
 134:2 174:20 175:2, 10,  
 20 176:6 187:1  
**seeking** 52:18, 20 61:22  
 77:23 116:17 122:6  
 127:20 131:3 135:19  
 157:5 174:21, 22 175:5  
 176:17 193:7  
**seeks** 154:12  
**seen** 10:22, 22 77:23  
 138:18 141:21 180:2  
**segregated** 130:19  
**sell** 178:14  
**sense** 125:9 156:15  
 157:7  
**sent** 4:11 77:22  
**sentence** 115:14 117:20  
 118:3 132:12 167:18  
 168:1, 12  
**separate** 198:14  
**series** 138:7 139:7  
**serve** 5:11 69:17, 23  
 70:10 71:13  
**served** 10:5  
**SERVICE** 1:2, 22 2:13  
 11:22, 24 12:3, 4 16:25  
 64:7 69:14 70:7 71:11  
 72:13, 23 73:1, 6, 10, 11  
 121:21 123:9 125:1  
 134:15 152:9, 9, 23  
 157:12 158:24 160:16,  
 18, 20, 24 161:19  
 166:25 187:12 202:9  
 205:1  
**services** 167:5  
**Service's** 69:19  
**SESSION** 1:11 4:4  
 81:3  
**set** 72:15 102:25 103:3  
 125:13 151:21 155:16  
 156:12 157:7 201:19  
**setting** 113:15  
**seven** 149:8  
**severance** 193:6  
**share** 60:19 115:23  
**shareholder** 54:7, 19  
 62:20 124:5  
**shareholders** 54:3, 8, 15,  
 22 62:23 112:12 113:3,  
 5 122:21, 25 123:2, 13,  
 15 139:12, 13  
**shareholder's** 63:25  
**shares** 49:22, 23 61:4  
**Short** 144:25 167:22  
 168:14  
**shorthand** 206:10  
**shortly** 106:5 178:14  
**show** 10:10 48:13  
 55:12 98:20, 23, 24  
 114:3 170:18  
**showing** 10:16 105:19  
**shown** 100:17 104:21  
**shows** 108:23 202:6  
**side** 181:25  
**sidestep** 14:18  
**sign** 150:2  
**signatures** 205:22  
**signed** 23:19 205:22  
**significant** 115:23 116:2  
 134:3 168:10  
**significantly** 167:20  
 171:6  
**similar** 46:21 142:11  
 163:18  
**simple** 62:6 158:17  
**simplifying** 124:16  
**simply** 114:4 121:18  
 128:2, 4 130:15 139:1  
 159:21  
**sir** 22:4 23:2 53:10  
 56:11 63:10 144:14  
 187:25 189:2 190:5, 10  
**sits** 51:2 202:2  
**situation** 154:16 155:25  
**size** 100:11 125:19  
 152:22  
**skews** 147:6  
**slate** 53:25 54:1, 2, 10  
**slates** 54:14  
**small** 78:4, 6, 7, 8  
 100:12  
**smaller** 47:17  
**so-called** 53:15  
**software** 175:8  
**solely** 156:6, 25  
**somebody** 51:10  
**someplace** 103:3  
**sorry** 7:22 12:1 71:14  
 73:24 75:2 80:15, 23  
 101:20 106:1 112:20  
 124:15 130:8 132:6, 8  
 140:18 149:24 167:21,  
 25 169:24 170:24  
 172:24 173:19, 23  
 176:3 189:4  
**sort** 61:2 180:17 184:8  
**sorts** 19:17 46:25 47:1  
**sought** 174:8, 13  
**sounds** 22:16 55:23  
 180:18  
**source** 187:20  
**sources** 187:13  
**South** 3:11  
**Spain** 79:1  
**speak** 64:5, 6 73:8  
 136:2  
**specific** 98:9 111:24  
 113:9 127:3 140:19, 22  
 141:2, 5 156:6 164:20  
**specifically** 48:9 50:7  
 103:18 106:22 121:20  
 124:11 139:18 140:19  
 142:17 153:2 184:23  
**speculate** 13:21  
**speculating** 72:12  
**speculation** 73:20  
 128:17  
**spent** 135:14  
**split** 23:19  
**sponsor** 51:3  
**sponsored** 51:10  
**spread** 176:15 177:13  
**squares** 115:14 131:3  
**STAFF** 3:21 23:24  
 49:9, 9 52:12 75:11  
 97:13 101:24 114:7  
 117:22 118:18 119:9  
 122:20 129:2 130:21  
 137:1 158:3 177:25  
 183:8 190:15 191:7  
 192:1 197:1 201:1  
 205:7, 18 208:18, 22, 25  
**staff's** 48:14 75:24  
**stakeholder** 126:21  
**stakeholders** 120:4, 5  
 129:2 130:1 159:6  
**stand** 167:10  
**standalone** 97:20  
**standard** 119:1, 4  
 120:10 121:3, 3, 4, 9  
 122:13, 19 179:23  
 182:10, 14  
**standards** 16:1  
**start** 59:24 123:4  
 156:3 173:20 191:16  
**started** 4:8  
**starting** 49:21 78:14  
 123:17  
**state** 17:23 18:8 104:8  
 110:18 120:20 163:19  
 197:17 206:1  
**stated** 129:6  
**statement** 5:7 19:6  
 50:5 114:12 118:16  
 121:19 122:1 127:12  
 141:13 169:2 170:19  
 185:18  
**statements** 50:5 51:17  
 144:20  
**States** 105:20, 21  
 154:14 176:24 181:17  
 184:24  
**stating** 185:25 186:25  
**statute** 55:17, 19, 20  
 56:8, 10, 12 57:12, 19, 24  
**statutes** 57:5, 17  
**statutory** 13:17 14:3  
 15:11, 15 54:25 58:3  
 120:10  
**steady** 104:8  
**STEIDTMANN** 1:16  
 206:5, 16  
**STEPHANIE** 3:10  
**STEVE** 3:15 111:17  
 166:15  
**stick** 125:11 135:10  
 137:2  
**stipulate** 188:15  
**STOCK** 1:5 112:4  
 115:18, 18 116:6, 18  
 117:4 142:20  
**stop** 80:16 109:11  
**straight** 203:16  
**Street** 2:14 3:4, 11, 15  
**strict** 118:7  
**strictly** 72:16 73:16  
**strike** 52:3  
**stronger** 153:13  
**struck** 52:5

**study** 113:14 116:14, 19  
 145:22, 24 146:4  
**stuff** 135:10  
**subject** 15:7 62:22  
 77:18 129:24 130:7  
 140:5 193:19 203:24  
**subjects** 137:1  
**submit** 12:19 14:15  
 16:3, 23 71:5, 7, 9  
 73:17 74:14 193:6  
**submitted** 5:6 16:8  
 17:9 51:6 53:6 101:12  
 105:2  
**subsequent** 75:22  
 129:15, 18 140:2  
**subset** 80:19 106:11  
 126:25  
**subsidiaries** 135:19  
 159:1 187:8, 15 202:18  
**subsidiary** 187:18  
**substantive** 178:5  
**sufficient** 55:24 62:9  
 100:10 121:2 125:19  
**suggest** 46:21, 24 204:20  
**suggested** 62:25 185:6  
**suggesting** 63:16 123:12  
 188:5  
**suggestion** 201:19  
**suggestions** 67:12, 15  
**Suite** 2:5, 14 3:4, 11, 15  
 206:6  
**summarize** 75:19  
**supplemental** 4:12 151:5  
**Support** 166:23  
**supporting** 102:17, 18,  
 24 103:4  
**suppose** 14:5 16:18  
 97:22  
**sure** 4:10 12:11, 16  
 19:3 48:12 59:17  
 61:15 64:23 69:5, 9  
 74:17 75:14 102:6, 25  
 103:9, 23 104:2, 10  
 110:12 113:16 120:1,  
 11 126:11 142:12  
 144:10 152:7 169:10  
 170:11 171:2, 2 178:24  
 190:22 203:8  
**Surprise** 190:9, 9  
**surrebuttal** 8:1 9:11  
 11:1, 17, 20 12:22  
 16:10 17:22 46:21  
 52:7 56:9 58:19 59:9,  
 18 61:9 63:1 77:10  
 79:15 97:7 112:14, 20,  
 21 117:18, 20 119:8  
 124:14, 15 127:4  
 128:24 140:6, 20 151:6  
 173:7, 12, 15, 23 174:6  
 176:22 184:20, 23  
 185:18, 24 186:18, 24  
 187:22

**sur-surrebuttal** 192:6, 9,  
 21 197:5, 17 199:2  
 201:6, 18 204:19, 22  
**SUSAN** 3:7 64:21  
 160:8  
**sustain** 73:23, 25 119:5  
**sustainable** 133:3  
**Sustained** 128:18  
**SWORN** 9:5 77:4  
 149:2 151:1 184:1  
 192:1 197:1 201:1  
 208:5, 7, 15, 18, 22, 25  
**synergies** 113:21 115:25  
 116:2, 7 122:7 125:3  
 142:21 143:1 180:18, 19  
**Synergy** 103:19 104:8  
 108:22, 25 113:14  
 114:5 116:13, 16, 19, 23  
 131:12 133:20 135:13  
 137:3, 13 145:22 146:3,  
 4 168:21 171:17 176:2,  
 5 180:11 201:20 202:2,  
 24 203:18  
**system** 102:17 154:23  
  
**< T >**  
**table** 123:6 180:8, 12  
 181:16 202:6  
**tables** 180:22  
**take** 9:2 14:1 16:24  
 58:15 63:3 69:19 70:6  
 109:5, 6 113:22 122:17  
 125:13 148:3 149:7  
 152:6 173:16, 18 176:1  
 190:3, 12 191:10  
 195:10 197:22 202:15  
**taken** 61:8 76:19  
 120:17 126:9, 9 148:5  
 174:24 206:10  
**takeover** 110:7  
**takes** 71:11  
**talk** 46:12 58:16 70:15  
 124:12 140:19 153:3,  
 16 154:7, 23 163:22  
**talked** 109:20 153:18  
 188:14  
**talking** 12:14 20:19  
 22:25 67:19 106:17  
 108:6 109:12 121:7  
 144:5 159:12 178:25  
 182:9  
**team** 67:5  
**TECHNICAL** 1:11  
**Teleconference** 149:1  
 183:11  
**tell** 72:19 73:12 74:4,  
 11 75:5 99:7 112:16  
 114:23 131:9 173:15  
 195:12  
**tells** 74:13  
**template** 66:9  
**ten** 171:14, 19, 23, 24

172:13, 15  
**tendered** 173:13 203:25  
**ten-year** 169:6 170:15  
**term** 64:24 123:3  
 144:15, 17 153:22  
 167:20, 23 168:14  
 171:6, 9, 12, 12, 14  
**termination** 193:7  
**terms** 20:22 53:11  
 98:23, 25 117:4 133:3  
 142:6 181:3 182:8  
**territories** 125:1  
**test** 131:17 135:3, 16  
 138:18 139:2 154:13,  
 25 155:7, 8 156:2, 5, 9  
 161:15 172:16 175:11,  
 12, 12 176:13 177:20  
 179:6 193:25 201:23  
 203:22  
**tested** 130:3  
**testified** 50:25 53:9  
 57:11 75:21 122:8  
 146:10 202:23 204:3  
**testimony** 4:7 9:10, 11,  
 14, 16, 18 11:1, 18 17:9  
 18:22, 23 19:1, 20  
 21:14, 15, 16, 22, 24  
 22:19, 20, 21 23:1, 5, 7  
 46:15, 22 56:9 59:10,  
 17 62:7, 7, 25 63:1, 4,  
 17 66:16 69:10 71:2, 4  
 75:19 77:10, 16, 19, 20,  
 24 78:3, 13 79:7, 15, 21  
 97:7, 15 98:6, 8, 9, 12  
 99:6, 8 100:1 101:22  
 115:21 117:20 118:4,  
 12, 25 119:8 120:12, 14,  
 15 121:15, 18 123:5  
 124:10 128:9 140:6, 9,  
 15, 25 141:4, 10 146:21  
 149:9, 12 151:5, 5, 6, 6,  
 12, 23 152:5 153:5  
 154:3, 7 157:23 166:18  
 167:9, 10, 12, 15 170:20  
 173:7, 15, 18 184:14, 14,  
 20 185:9, 14, 20, 23  
 186:4, 23 187:5, 6  
 188:4 189:9, 12, 18, 23  
 190:20 192:8, 13 193:4,  
 11, 20 194:8 197:8  
 201:5, 8 202:5, 20  
 203:1, 12, 23 204:20, 24  
**Thank** 18:14, 16 69:1, 5  
 76:4, 9 78:13 79:4, 11  
 106:1 111:6, 17 136:19  
 139:24 143:7 147:21,  
 23 150:3 166:12  
 177:23 178:20 184:12  
 188:9 189:6 190:10  
 192:11 193:14 197:11  
 204:12 205:3  
**Thanks** 12:1 18:13  
 76:13 144:12 145:12

150:1 182:7 183:5  
 190:7 196:2 199:19  
 205:4  
**thing** 4:9 5:2 6:18  
**things** 111:19 112:1  
 131:13 139:17 160:16  
 172:7 185:12  
**think** 4:13 5:6 6:20  
 8:4, 11 13:19 15:6, 18  
 16:22 20:7, 23 22:18,  
 19 23:23 50:23 51:7  
 53:5, 16, 18, 21 54:5, 13  
 58:10 60:22 63:15, 16  
 64:8, 13 71:14 74:22  
 75:1 77:24 80:19  
 105:6, 10 109:18, 23  
 113:23 114:11 117:18  
 119:18, 21, 25 120:19  
 121:2, 18, 21 122:12  
 123:7 124:3, 20, 23  
 125:5, 13, 15, 24 126:7,  
 17, 22 127:1, 24 130:16  
 131:25 135:21 137:18  
 138:3, 6 139:5 143:15  
 146:24 147:18 155:1  
 163:16 165:22 166:17  
 172:22 177:6 180:7  
 183:9 189:10 190:18  
 198:10, 11, 23 201:25  
 203:11 205:14  
**thinks** 179:18  
**third** 79:5  
**thoroughly** 130:3 201:25  
**thought** 100:11 109:4  
 153:11  
**three** 53:19, 21, 22  
 77:24 102:22 104:20  
 120:5, 13 139:9 147:3  
 156:21 171:21 182:14  
**thrust** 121:14  
**tied** 141:3, 7  
**time** 4:6 7:16 17:25  
 56:16 75:4 101:5, 7  
 104:7 106:3, 5 108:20  
 114:25 131:19, 20  
 133:15 135:2 141:19  
 143:23, 23 155:23  
 157:14 161:21, 22  
 162:5 166:5 169:6  
 171:12 174:14, 16, 23  
 175:2, 17 178:19  
 189:24 204:21 206:10  
**times** 130:22 144:18  
**timing** 125:18 137:5, 8,  
 11 176:12 178:6  
**TITUS** 3:18  
**today** 9:14 14:23, 24  
 68:4 74:4 77:16  
 149:12 151:12 167:9  
 181:11 189:11 192:12  
 193:20 201:18 202:2, 21  
**told** 115:14 177:7 186:9

**top** 71:12 100:19  
 104:16 147:3 181:16  
 197:17  
**total** 69:15 70:8, 11  
 133:24 134:23 156:8  
**totally** 141:23  
**touch** 52:8 157:23  
**track** 128:25 135:12  
 180:14  
**tracking** 49:16 130:24  
 131:2 187:24  
**trade** 128:10  
**trading** 112:4 113:20  
 115:18  
**traditionally** 175:15  
**training** 65:10  
**transaction** 11:6 17:23  
 18:2, 4 62:16 68:4  
 78:16, 19 101:16  
 117:24 118:19 119:10  
 121:10, 16 122:8  
 123:20, 23 125:2, 16, 21,  
 23 126:18, 20 127:25  
 128:13, 22 130:6  
 132:16 139:12, 13  
 144:2 145:6, 7 147:18  
 165:8 166:20 167:18  
 170:13, 17 171:5 178:4,  
 10 180:25 185:4, 11, 16  
 186:1, 11 202:8 203:11  
 204:5  
**transactions** 78:15  
 103:24 109:7 113:18  
 116:17 117:16, 17  
 125:17 126:18 145:10,  
 11 147:1  
**TRANSCRIPT** 1:10, 20  
 3:25 4:1 46:1 97:1  
**transition** 101:16, 17  
 128:25 129:8, 12, 13, 14,  
 20, 21 130:4, 5, 11, 12, 15,  
 19, 25 131:2, 4, 11, 11, 14,  
 15, 15, 19, 23 132:22  
 133:10, 19, 25 134:2, 18,  
 20, 22, 24 135:11, 12, 20,  
 24 136:9 137:2, 12, 15,  
 24 138:4, 8, 13, 22  
 144:3 154:7, 13, 17, 19,  
 20 155:7 168:24, 25  
 172:6 173:17 174:5, 7,  
 20, 21, 25 176:4, 5, 7, 19,  
 24 177:5, 8, 18, 19  
 187:24 188:3, 7 192:23  
 193:13, 19, 24 194:9  
 195:1, 20 203:13, 21  
 204:1  
**transition-related** 176:2  
**transitions** 194:21  
**TRANSMISSION** 2:17  
 47:13 99:3, 3, 4 187:10  
**treat** 154:16  
**treating** 113:2

**tried** 193:14  
**trigger** 162:2  
**trouble** 194:25  
**true** 115:22 162:22  
 184:17 192:13 197:9  
 201:9 206:9  
**trust** 58:14  
**try** 48:9 204:22  
**trying** 20:15 125:9, 22  
 131:1, 1 144:19, 20  
 151:25 153:11 156:24  
 159:22 163:16  
**Tuesday** 110:5  
**turn** 46:16 100:1  
 114:15 117:18 146:18  
 166:17 167:8 170:6  
 176:22  
**Turning** 139:7  
**two** 6:5 50:22 66:10  
 69:15, 23 73:12 102:22  
 104:14, 15 112:1, 14, 17  
 114:21 115:3, 15  
 128:20 131:10 133:11  
 134:17 137:20 142:5  
 146:10, 25 147:2 158:8  
 163:2 164:8 165:11  
 168:21 172:19 175:3,  
 17, 18 180:22 182:17,  
 18, 19, 22, 24 198:14  
 202:23 204:16  
**two-year** 138:11 162:14  
 172:25 197:25 198:16,  
 17  
**type** 111:3 116:19  
 130:20 154:18 164:20  
 168:18  
**types** 100:8 110:9  
 154:20  
**typically** 146:13 202:25  
  
**< U >**  
**Uh-huh** 12:15 16:13  
 19:7 23:6 49:19 51:14,  
 19 52:16 62:14 63:20  
 111:12  
**ultimately** 140:13  
 187:20  
**Um-hmm** 155:2  
**underlying** 112:3 118:10  
**understand** 12:16 17:12  
 19:12 22:5 63:21 69:9  
 70:5 71:19 73:14  
 75:25 77:23 98:17, 19,  
 20 109:4, 18 114:1  
 115:12 120:11 121:14  
 130:17, 25 131:1, 24  
 132:21 133:6, 7 134:1  
 135:12 138:6 142:25  
 143:15 144:22 159:19  
 170:19 179:1, 10 180:7  
 184:10 192:24  
**understanding** 49:5  
 53:5 54:18, 25 55:16,

24 56:19 57:11, 17, 24  
 64:24 97:18 98:7, 13  
 113:14 128:23 135:17,  
 18 136:7, 16 138:23  
 154:10 172:10 174:6,  
 12 178:9 179:18  
**Understood** 57:20  
 61:14 71:2 142:12  
 177:3 194:8 199:1  
**undertaken** 70:23 72:4  
**unequivocally** 141:13  
**unfounded** 75:25  
**unilaterally** 47:3 63:6  
**union** 66:21, 25 67:2, 8,  
 24 68:3, 13, 17, 22  
 149:21 165:20 197:22,  
 24 198:11, 21, 24  
**unions** 66:18 67:4 68:2,  
 3  
**union's** 198:4  
**unique** 177:12  
**unit** 12:8, 11  
**United** 79:1  
**units** 142:3 161:23  
**universe** 109:5 125:16  
**unknowable** 130:14  
**un-redact** 190:1  
**unregulated** 187:14  
**update** 11:8, 9 178:4, 5  
**updated** 4:14  
**upfront** 145:22 146:4  
**UPPCO** 178:7  
**upshot** 74:3  
**use** 17:5 116:6 128:21  
 144:17 163:23 185:10,  
 14 186:9  
**usually** 4:10 116:20  
**UTILITIES** 2:8 18:19  
 52:11, 19 56:20 69:16  
 73:7, 9, 12 75:5 99:1  
 104:2 114:17 115:1, 4  
 124:2, 11, 17 125:11  
 126:14 144:4 157:22  
 158:9, 15, 18, 23, 25  
 161:9 167:1 179:18  
 181:4 187:18, 19 202:8  
**UTILITY** 3:3 56:13  
 59:6 99:1, 2 100:7, 9  
 113:15 116:11, 15  
 118:20 119:23 120:6,  
 16, 23 121:11, 17 122:6,  
 9 125:19 127:13, 22  
 128:2 140:13 143:17  
 159:1 179:2, 23 182:11  
  
**< V >**  
**vacant** 65:12  
**vague** 48:7  
**value** 60:18 78:9 112:2,  
 11, 24 115:18, 20  
 142:13, 14 155:4  
**variable** 98:24

**variety** 171:22 172:8  
 179:25  
**various** 124:12 128:7,  
 12 202:7  
**vast** 47:24 49:23  
**verified** 205:18  
**version** 4:14, 15 99:5, 8,  
 11, 14 189:16, 17 190:4  
**versus** 99:1 137:9  
 155:1 157:11 163:13  
 164:19  
**view** 64:9 73:4, 5  
 118:25 119:2 121:3, 5  
 122:13 126:17 127:18  
 128:1 129:19  
**vigorous** 147:14  
**Virtually** 187:7  
**voice** 184:11  
**VOLUME** 1:12 24:4  
 81:4 207:7, 13, 21, 24  
**voluntary** 163:25  
**vote** 54:3, 15  
**voting** 19:11, 13 22:2, 8,  
 12 23:3 52:18 56:14,  
 23 57:2 58:13, 14 62:8,  
 12, 19 63:18  
  
**< W >**  
**wait** 107:10  
**waived** 5:23 136:3  
**waiving** 5:19  
**want** 7:5, 10 12:16  
 23:13 48:17 51:20  
 52:8 55:8 61:15 64:23  
 69:11 71:19 73:2, 12  
 75:6 100:1 107:6  
 114:14 120:11 127:13  
 128:22 133:6, 7 136:2,  
 6 138:16 144:10  
 146:18 154:10 159:11  
 162:9, 17 170:9 188:2  
 189:8 191:8 193:11  
 198:10, 22, 22 201:17  
 205:14  
**wanted** 72:14 104:2  
 142:7 144:18 168:9  
 178:24 182:10 194:11  
 205:15  
**wants** 74:14 135:5  
**Waukesha** 2:19  
**way** 5:3 6:21 14:2  
 17:2, 4 54:6 58:23  
 63:21 72:16 73:16  
 74:9, 12 75:20 78:17  
 98:19 103:22 126:1  
 127:11, 23 129:14  
 141:15 144:21 171:16  
 176:3 184:25 188:5  
 189:19 194:8  
**ways** 98:20 125:5  
**web** 105:19  
**website** 99:9

WEC 2:21 4:3 5:9, 11, 12, 19 9:5 10:6 11:4 12:16, 18, 23 16:2 18:3 19:13, 24 23:12, 24 58:8 60:11, 16 62:8 63:18 66:12, 16, 20 67:1, 23 70:5 71:2 72:8, 19 73:15, 17 76:5, 7 77:4 78:4 80:18 100:19, 23 104:17 116:9 117:1, 2 122:21 125:11 126:4, 15 127:12, 18 128:6, 12, 24 129:6 130:10 131:10 133:9, 9, 11, 19 134:1, 13 135:18, 23 136:8 137:12 138:24 145:17 147:17 151:1 158:13 162:10 167:2 168:4, 14 171:3, 17 173:23 174:8, 18, 25 175:1, 20, 24 176:6, 17, 22 177:4, 5, 7, 16, 16 184:21, 24 185:18, 24 186:1, 7, 16, 18, 24, 25 187:13, 14, 16, 22 188:6, 24 193:5 197:16 198:2, 6 207:3, 18 208:7  
**WEC-Reed-11** 102:12 113:23 132:8  
**WEC-Reed-12** 108:19, 21 109:2  
**WEC's** 5:16 19:9, 14 59:13, 20 62:19 69:13 72:22 74:4, 23 75:17 122:25 124:19 134:1 135:12, 21 136:14 187:7  
**week** 186:8  
**weeks** 4:5  
**welcome** 4:2  
**well** 6:24 9:1 10:25 12:25 13:5, 22, 22, 25 14:12 16:18, 22, 24 19:11 20:12, 19 21:2 23:13 47:17 49:21 50:13 51:4, 12 54:25 57:11 60:2 62:22 63:3 64:2 66:3 69:25 70:19 71:4 72:12 73:1 75:2 105:12 106:25 107:2, 13 114:1 118:12 119:4, 5 120:11 124:10 126:1, 2, 7 130:23 135:18 140:19 146:14 150:1, 3 152:21 153:10 154:18 156:2, 8 166:25 168:4 171:10 174:24 181:10 182:5 187:5 190:10 203:16  
**went** 100:6 160:12  
**WEPCO** 11:22, 24 12:18 16:3 69:14 70:7 71:10 72:23 73:6

97:21 110:9 134:15 135:1 154:12 167:4 168:14 178:13  
**WEPCO's** 69:20 172:18  
**we're** 7:16 8:13 12:14 20:19 22:25 58:18 59:14, 14, 22 61:15 67:19 102:10 120:1 121:7 149:23 152:23 154:21 158:22 171:10 178:25 183:9 190:14, 19 192:24 195:16 205:20, 24  
**West** 2:21 3:7  
**We've** 4:4 7:23 75:3  
**whatsoever** 203:21  
**whichever** 200:6  
**wholesale** 158:25 159:14, 24  
**wholesalers** 159:10  
**WICOR** 100:19, 23 104:17 145:17  
**WIEG** 5:6, 9, 15 7:3, 4 23:24 69:4  
**willing** 18:10, 10 59:18 61:2, 7, 11, 23, 25 63:3 68:16 147:16 193:9  
**WILSON** 2:4 4:17, 22 5:9 6:1, 10, 23 7:4 9:4, 8, 18, 21 11:13 20:6, 23 21:1 22:18 23:22 50:23 51:12, 15, 20, 23 52:3 55:8 57:8, 16 69:24 70:19 71:25 73:19 74:15 76:12 77:3, 6 79:4, 9 80:14, 16 103:14 107:11 108:2 118:22 119:2, 13 128:16 131:5, 7 145:13, 15 147:20 183:8 188:23, 24 189:3, 6 192:19 193:14 197:14, 15 199:19 205:16 207:4, 10, 19 208:4, 17, 20, 24  
**window** 56:21 105:14  
**WINTERS** 2:4 150:7 151:3, 15 169:8 172:21, 25 180:16 183:3 208:8  
**WISCONSIN** 1:2, 4, 23 2:3, 5, 5, 9, 12, 15, 19, 22, 24, 25 3:5, 8, 12, 14, 16, 19 7:1 11:22, 24 12:3, 4 16:25 64:7 70:6 111:18 124:2 127:13 139:23 142:24 143:1 146:1 163:11, 12, 13, 19 166:15 172:11 181:18 185:2 187:9, 9, 12, 20 202:9 205:1 206:1, 7, 21  
**witness** 6:19 9:2, 5 55:14, 17, 19 57:21 60:6 62:24 63:15

70:15 75:14 76:15 77:2, 4 80:2 97:13 104:1 119:18 122:20 144:25 147:23, 24 149:2 150:3, 5 151:1 170:23 171:1 172:5 173:2 181:3 183:6 184:1, 24, 25 189:4, 22 190:5, 10, 13 192:1 196:3 197:1 200:2, 8, 16 201:1 205:6 207:2, 3, 18 208:5, 7, 15, 18, 22, 25  
**witnesses** 6:21 62:7 113:2 114:21 144:17 191:8 205:8, 18, 20  
**wondering** 182:8 189:15  
**word** 112:14 118:2  
**words** 54:2 98:14  
**work** 22:8 164:20 165:14, 18  
**worked** 74:7  
**workers** 68:8  
**workforce** 64:23, 25 65:1, 3, 4, 7, 18, 22, 25 66:3, 6, 7, 10, 13 67:6, 25 152:14 161:11 162:11 163:1 164:7, 13 165:10, 14 171:20 172:19 173:5 182:9, 11, 12, 13, 13, 21  
**working** 14:8 128:22 164:21 178:10 179:25  
**works** 53:11 98:2  
**worth** 134:20, 22, 24  
**WOYWOD** 3:4 184:3, 4, 7 188:9 208:16  
**WPS** 97:21 153:3 161:9 181:22  
**WPSC** 12:8, 18 15:4 16:3, 6 149:2 199:18 201:22 203:22 208:5  
**WPSCR** 199:18  
**WPSC's** 70:21 201:20 203:4, 17  
**write** 127:6, 22 128:3 136:9  
**written** 54:6 102:13 139:11  
**wrong** 4:13 139:25  
**wrote** 115:9  
**< Y >**  
**Yeah** 6:12 18:9 22:16, 22 46:4 48:19 50:17, 17 53:13 59:24 70:16 71:25 73:8, 22 79:8 80:23 102:20 107:13 112:22 117:6 119:4, 17 122:16 131:9 133:22 144:7 157:6 165:24 167:16 169:10, 16 170:21 177:9 178:8

180:16 181:13 182:2, 4 190:10 191:13 198:8  
**year** 13:2, 3 14:8 15:20 105:7 138:1, 15, 17, 17, 18 139:2 141:16, 16 144:8 146:13, 14 154:13, 15, 25 155:7, 8 156:2, 5, 9 157:2, 9 161:15 164:3 168:21 172:16 173:5 175:11, 12, 12 176:4, 13 177:20 179:5, 6, 6 193:25 194:1 201:23 202:13, 23 203:6, 22  
**years** 56:17 100:7 101:19, 20, 21, 22 105:9 106:7, 10 110:23 131:13 132:23 133:2 146:11, 21 147:6 156:21 163:2 164:8 165:11 171:11, 14, 19, 21, 24 172:13, 15, 19 175:17, 18, 19, 20 176:10, 21 181:14 182:17, 18, 20, 22, 24 195:7  
**Yep** 61:14 168:2 176:20 177:2  
**yesterday** 4:19, 21 77:22

**< Z >**  
**zero** 194:18  
**ZIBART** 2:18